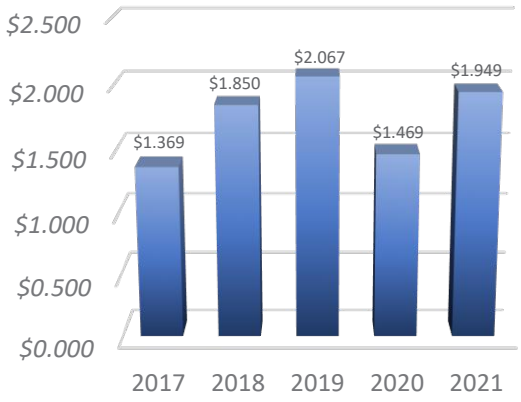
2021
ANNUAL REPORT

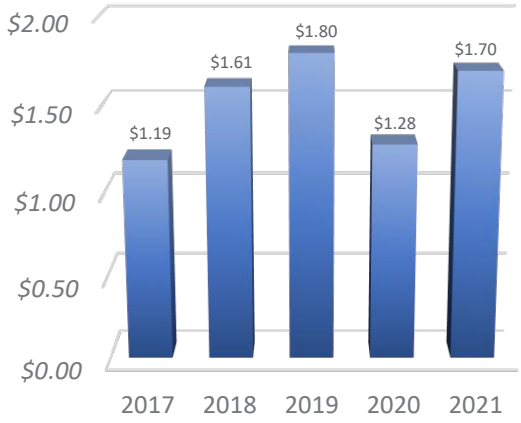
ELMER BANCORP, INC.

Elmer Bancorp, Inc.
2017 – 2021 Financial Highlights

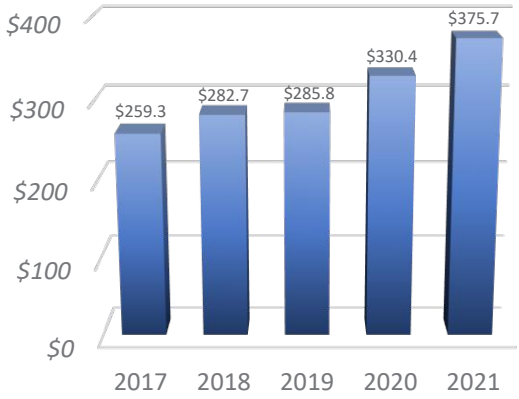
Net Income
(in millions)



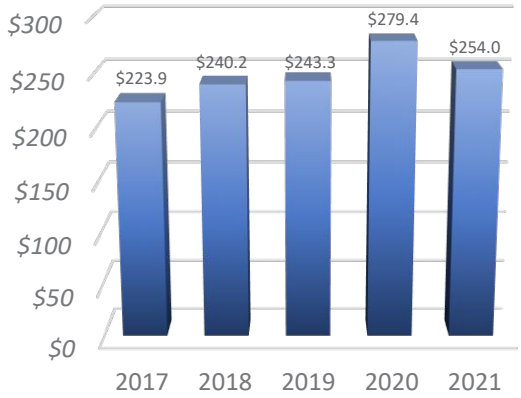
Earnings Per Share



Total Assets
(in millions at December 31)

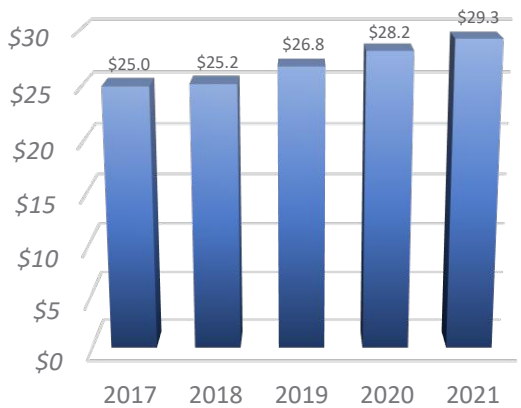


Total Loans
(in millions at December 31)



Total Deposits
(in millions at December 31)

Shareholders' Equity
(in millions at December 31)



ELMER BANCORP, INC.

April 29, 2022

To Our Shareholders:

The past two years have been extremely challenging, to say the least. Navigating the ups and downs, ins and outs of the COVID-19 pandemic was especially challenging to our staff in trying to provide the exceptional customer service to all our clients for which we take extreme pride. The closing of lobbies, having drive-thru only service and the occasional closing of a branch due to staff shortages was very daunting. Yet, we managed to persevere thanks to the dedication of our entire staff and the understanding of our loyal customer base.

As a result of the COVID-19 pandemic, several government programs were initiated in 2020 including the Paycheck Protection Program (PPP) through the Small Business Administration (SBA) and the Coronavirus Aid Relief and Economic Security Act (CARES Act) which provided loan payment deferrals or payments of interest only on loans to our loan customers. The PPP program continued into 2021. We are pleased to report that over the two-year period, the Bank funded 371 PPP loans totaling $46.3 million. As a result of SBA forgiveness provisions under the program, at year-end December 31, 2021, there were only $5.7 million of PPP loans remaining on the books. In addition, as previously reported, the Bank provided deferments on loans totaling $94.4 million in 2020, none of which were in deferment at year-end 2020.

Despite all of the challenges, we were able to generate significant results for the year ended December 31, 2021. Elmer Bancorp's net income for 2021 increased 32.7% over 2020, recording net income of $1.949 million for the year ended December 31, 2021 compared to $1.469 million for the year ended 2020. Earnings per common share rose to $1.70 per common share for the year ended December 31, 2021, compared to $1.28 per common share for the year ended 2020. Results for 2021 were significantly impacted by the recognition of $889,000 of net deferred fee income on the PPP loans compared to $456,000 in 2020. In addition, the loan loss provision in 2021 totaled $300,000 compared to $931,000 in 2020. We continue to be cautious regarding the coronavirus impact on our business customers. Net income in 2021 was also impacted by higher employment costs, regulatory assessments and occupancy and equipment expenses.

Elmer Bancorp's total assets were $375.7 million at December 31, 2021, an increase of $45.3 million over the December 31, 2020 total of $330.4 million. Core assets (excluding PPP related assets) were $370.2 million at December 31, 2021 compared to $306.3 million at December 31, 2020, an increase of $63.9 million. Total loans were $254.0 million at December 31, 2021 compared to $279.4 million at December 31, 2020, an decrease of $25.4 million. Core loans (excluding PPP related balances) totaled $248.5 million at December 31, 2021 compared to $255.3 million at December 31, 2020. Deposits totaled $344.5 million at December 31, 2021 compared to $300.4 million at December 31, 2020, an increase of $44.1 million.

Shareholders' equity at December 31, 2021 totaled $29.5 million compared to $28.2 million at year-end 2020. Book value per share at December 31, 2021 was $25.50 per common share at December 31, 2021 compared to $24.55 per common share at year-end 2020.

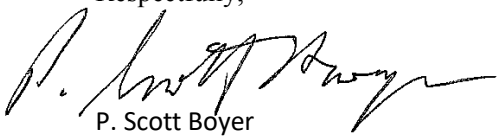
As we move forward into 2022, we are excited about initiatives to improve our customer experience. In April 2022, we are on schedule to finalize the upgrade and replacement of our ATM machines. In addition, we are on schedule to introduce the instant issue of debit cards throughout our branch network that will allow customers to receive a debit card upon account opening or to obtain a replacement card if one has been lost or compromised. We also introduced Mobile Deposit for our non-business customers which allows them to deposit checks digitally. We continue to move forward to improve our services to all of our customers.

In closing we would like to thank Cindee F. Low, former Chairman of the Board, for her 10 years of service to the Company and wish her well in her retirement. As a result of her retirement, as previously announced, P. Scott Boyer was appointed Chairman of the Board and Robert A. Woodruff was appointed Vice-Chairman of the Board.

We sincerely want to thank all our employees for their dedication and for persevering during the coronavirus pandemic, dealing with all the uncertainties on a day-to-day basis. They made it all happen.

And a huge thank you to all our loyal customers and shareholders during these difficult times. Your support is very much appreciated. Elmer Bancorp remains strong, ready to face the challenges that may be presented in the future.

Respectfully,



P. Scott Boyer
Chairman of the Board

Brian W. Jones
President/CEO

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Elmer Bancorp, Inc.
Elmer, New Jersey

Opinion

We have audited the accompanying consolidated financial statements of Elmer Bancorp, Inc. and subsidiaries (the "Bank"), which comprise the consolidated statements of financial condition 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 its operations and its 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 available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Cranberry Township Pennsylvania
April 12, 2022

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2021	**2020**
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 4,007,630	$ 3,530,482
Interest-bearing deposits with other institutions	54,409	38,928
Federal funds sold	78,479,000	29,162,000
Total cash and cash equivalents	82,541,039	32,731,410
Securities available-for-sale, at fair value	29,698,008	8,472,383
Restricted stock, at cost	404,600	374,800
Loans receivable, net of allowance for loan losses of $4,556,384 in 2021 and $4,179,898 in 2020	249,464,141	275,190,281
Bank owned life insurance (BOLI)	6,981,027	6,791,238
Premises and equipment, net	3,646,198	3,410,138
Deferred income taxes	1,718,319	1,438,274
Other real estate owned (OREO)	-	173,285
Accrued interest receivable	660,037	1,157,792
Other assets	579,376	677,102
TOTAL ASSETS	$ 375,692,745	$ 330,416,703
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 114,069,618	$ 97,474,195
Savings, NOW, and money market deposits	179,940,267	151,305,720
Other interest-bearing time deposits	50,517,241	51,643,778
Total deposits	344,527,126	300,423,693
Accrued interest payable	26,011	30,350
Accrued expenses and other liabilities	1,673,376	1,761,955
TOTAL LIABILITIES	346,226,513	302,215,998
SHAREHOLDERS' EQUITY		
Common stock, $0.10 par value; 3,000,000 shares authorized; 1,219,680 shares issued; outstanding 1,149,927 shares at December 31, 2021 and 1,148,677 shares at December 31, 2020	121,968	121,968
Additional paid-in capital	603,320	623,949
Retained earnings	31,218,143	29,694,598
Accumulated other comprehensive loss	(319,116)	(43,052)
Treasury stock at cost: 69,753 shares at December 31, 2021 and 71,003 shares at December 31, 2020	(2,158,083)	(2,196,758)
TOTAL SHAREHOLDERS' EQUITY	29,466,232	28,200,705
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 375,692,745	$ 330,416,703

See accompanying notes to consolidated financial statements.

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,	
	2021	**2020**
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 12,421,856	$ 12,190,666
Securities available-for-sale	249,243	171,149
Securities held-to-maturity	-	2,133
Interest on federal funds sold	64,256	57,897
Interest-bearing deposits with other institutions	11	524
Total interest and dividend income	12,735,366	12,422,369
INTEREST EXPENSE		
Deposits	862,874	930,538
Total interest expense	862,874	930,538
NET INTEREST INCOME	11,872,492	11,491,831
Provision for loan losses	300,000	931,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,572,492	10,560,831
NONINTEREST INCOME		
Service charges on deposit accounts	291,838	295,968
Other service charges and fees	445,489	412,169
Increase in cash surrender value of BOLI	189,789	182,573
Net gain (loss) on sale of OREO	11,941	(32,601)
Other income	94,443	69,691
Total noninterest income	1,033,500	927,800
NONINTEREST EXPENSE		
Salaries and employee benefits	5,640,146	5,349,957
Occupancy and equipment expense, net	1,162,927	1,044,815
Data processing	1,007,480	1,038,417
Federal insurance premiums	278,541	232,119
Professional fees	599,805	613,112
Loan related expenses	77,444	100,744
Telecommunications	197,204	191,878
OREO expenses	22,378	93,849
Other expense	940,849	826,448
Total noninterest expense	9,926,774	9,491,339
Income before income tax expense	2,679,218	1,997,292
Income tax expense	730,200	528,100
NET INCOME	$ 1,949,018	$ 1,469,192
EARNINGS PER SHARE:		
Basic	$ 1.70	$ 1.28
Diluted	$ 1.70	$ 1.28
Weighted average basic shares outstanding	1,146,453	1,146,327
Weighted average diluted shares outstanding	1,148,483	1,147,016

See accompanying notes to consolidated financial statements.

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,	
	2021	**2020**
Net income	$ 1,949,018	$ 1,469,192
Other comprehensive (loss) income:		
Investment securities available for sale:		
Change in net unrealized (loss) gain		
on investment securities available for sale	(524,812)	209,862
Tax effect	110,210	(44,071)
Net of tax effect	(414,602)	165,791
Postretirement plan adjustment:		
Net unrealized gain (loss) on postretirement plan	175,364	(29,036)
Tax effect	(36,826)	6,097
Net of tax effect	138,538	(22,939)
Total other comprehensive (loss) income	(276,064)	142,852
Total comprehensive income	$ 1,672,954	$ 1,612,044

See accompanying notes to consolidated financial statements.

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2019	$ 121,968	$ 651,870	$ 28,409,194	$ (185,904)	$ (2,235,433)	$ 26,761,695
Net income	-	-	1,469,192	-	-	1,469,192
Cash dividends declared - $0.16 per share	-	-	(183,788)	-	-	(183,788)
Other comprehensive income	-	-	-	142,852	-	142,852
Issuance of restricted stock (1,250 shares)	-	(38,675)	-	-	38,675	-
Restricted stock compensation expense	-	10,754	-	-	-	10,754
Balance, December 31, 2020	121,968	623,949	29,694,598	(43,052)	(2,196,758)	28,200,705
Net income	-	-	1,949,018	-	-	1,949,018
Cash dividends declared - $0.37 per share	-	-	(425,473)	-	-	(425,473)
Other comprehensive (loss)	-	-	-	(276,064)	-	(276,064)
Issuance of restricted stock (1,250 shares)	-	(38,675)	-	-	38,675	-
Restricted stock compensation expense	-	18,046	-	-	-	18,046
Balance, December 31, 2021	$ 121,968	$ 603,320	$ 31,218,143	$ (319,116)	$ (2,158,083)	$ 29,466,232

See accompanying notes to consolidated financial statements.

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES		
Net income	$ 1,949,018	$ 1,469,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	256,881	257,748
Provision for loan losses	300,000	931,000
Investment securities amortization, net	129,265	130,556
Loan origination fees accretion, net	(1,189,185)	(518,292)
Deferred income taxes	(206,689)	(160,023)
Net loss (gain) on sale of OREO	(11,941)	32,601
Write-down of OREO	-	51,362
Restricted stock compensation expense	18,046	10,754
Decrease (increase) in accrued interest receivable	497,755	(486,131)
Decrease in accrued interest payable	(4,339)	(26,795)
Increase in cash surrender value of BOLI	(189,789)	(182,573)
Other, net	184,537	(153,920)
Net cash provided by operating activities	1,733,559	1,355,479
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Purchases	(24,625,375)	-
Proceeds from maturities, calls, and repayment of principal	2,745,673	3,582,247
Investment securities held-to-maturity:		
Proceeds from maturities, calls, and repayment of principal	-	240,000
Purchases of regulatory stock	(45,850)	(12,200)
Redemptions of regulatory stock	16,050	2,300
Decrease/(increase) in loans receivable, net	26,442,579	(35,828,081)
Proceeds from sales of OREO	357,974	750,737
Purchases of premises and equipment	(492,941)	(123,603)
Purchase of BOLI	-	(1,400,000)
Net cash provided by (used in) investing activities	4,398,110	(32,788,600)
FINANCING ACTIVITIES		
Net increase in deposits	44,103,433	43,225,489
Dividends paid on common stock	(425,473)	(183,788)
Net cash provided by financing activities	43,677,960	43,041,701
Increase in cash and cash equivalents	49,809,629	11,608,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,731,410	21,122,830
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 82,541,039	$ 32,731,410
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 867,213	$ 957,333
Income taxes	$ 1,090,000	$ 776,000
Loans transferred to OREO during the year	$ 172,748	$ 149,400

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Elmer Bancorp, Inc., (the "Corporation") is a bank holding company incorporated in the State of New Jersey.

The First National Bank of Elmer (the "Bank") operates under a national bank charter and provides a complete line of business and personal banking products. The Bank operates through its six full-service offices located in Cumberland, Gloucester and Salem counties in New Jersey, including its main office located at 10 South Main Street, Elmer, New Jersey. The majority of the Bank's activities are with customers located within Southern New Jersey. The Bank does not have any significant concentrations in any one industry or with any one customer.

The Bank faces significant competition in attracting deposits and originating loans. Our most direct competition for deposits historically has come from the many financial institutions operating in our market area, including commercial banks, savings banks, savings and loan associations and credit unions, and, to a lesser extent, from other financial service companies, such as brokerage firms and insurance companies. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank's business is particularly susceptible to future federal legislation and regulations.

Basis of Financial Statement Presentation

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America ("GAAP"). A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows.

The accompanying consolidated financial statements include the accounts of Elmer Bancorp, Inc. and its wholly owned subsidiaries, The First National Bank of Elmer and First Elmer Investment Corporation. Since these financial statements are presented on a consolidated basis, the term "Corporation" as used herein may refer to Elmer Bancorp, Inc. individually as a bank holding company or inclusive of consolidated subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Certain prior period amounts may have been reclassified to conform to current year presentations. Such reclassifications had no effect on consolidated shareholders' equity or consolidated net income. In the opinion of management, all accounting entries and adjustments, including normal recurring accruals, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been made. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the issuance of the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value measurements, evaluation of other-than-temporary impairment, the valuation of other real estate owned, measurement of the defined benefit plan obligation, and the calculation of deferred tax assets.

Cash and Cash Equivalents

For the purpose of reporting the Consolidated Statement of Cash Flows, the Corporation considers cash and cash equivalents to include cash on hand, amounts due from banks, and interest-bearing bank balances with other institutions with original maturities of 90 days or less, and Federal funds sold.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

The Bank classifies investment securities as either available-for-sale ("AFS") or held-to-maturity ("HTM"). Investment securities classified as AFS are carried at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of equity, net of related income tax effects. Investment securities classified as HTM are carried at cost, adjusted for amortization of premium and accretion of discount over the term of the related investments, using the interest method. Investment securities are classified as HTM when management has the positive intent and ability to hold them to maturity. Gains and losses on sales of investment securities are recognized upon realization utilizing the specific identification method. Declines in the fair value of HTM and AFS securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. See Note 2 and Note 3 for additional information.

Other-Than-Temporary Impairments on Available-for-Sale Securities

One of the significant estimates related to AFS securities is the evaluation of investments for other-than-temporary impairments. If a determination is made that a debt security is other-than-temporarily impaired, the Bank will estimate the amount of the unrealized loss that is attributable to credit factors and all other noncredit related factors. The credit related component will be recognized as an other-than-temporary impairment charge in noninterest income as a component of gain (loss) on securities, net. The noncredit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risk and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads, and the expected recovery period.

On a quarterly basis, the Bank evaluates the securities portfolio for other-than-temporary impairment. Securities that are in an unrealized loss position are reviewed to determine if an other-than-temporary impairment is present based on certain quantitative factors. The primary factors considered in evaluating whether a decline in value is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating, and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, and (d) whether the Bank intends to sell the security and whether it is more likely than not that the Bank will not be required to sell the security. At December 31, 2021, the Bank concluded that unrealized losses on available-for-sale securities were only temporarily impaired.

Restricted Stock

The Bank owns restricted stock investments in the Federal Home Loan Bank of New York (FHLB), the Federal Reserve Bank of Philadelphia (FRB), and the Atlantic Community Bankers Bank (ACBB). These restricted stocks are reflected on the Consolidated Statements of Financial Condition at cost. At December 31, 2021, the Bank held $300,900 in stock at FHLB, $23,700 in stock at FRB, and $80,000 in stock at ACBB. At December 31, 2020, the Bank held $271,100 in stock at FHLB, $23,700 in stock at FRB, and $80,000 in stock at ACBB.

Under the Bank's membership agreement with the FHLB, required stock purchases are based on a percentage of outstanding borrowings and a percentage of unused borrowing capacity and may also include a percentage of assets sold to the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These restricted stocks do not have a readily determinable fair value and, as such, are classified as restricted investment in bank stock, are carried at cost and evaluated for impairment, as necessary. The restricted stocks' value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. Management evaluated the restricted stocks and concluded that the restricted stocks were not impaired for the periods presented herein.

Loans

The Bank grants mortgage, commercial, and consumer loans to individuals and businesses. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Southern New Jersey region. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding principal balances adjusted for any charge-offs, net of unearned discount, allowance for credit losses and unearned loan fees. Unearned discounts on discounted loans are recognized as income over the contractual term of the loans using a method that approximates the interest method. For all other loans, interest is accrued daily on the outstanding principal balances. Loan origination fees are deferred and recognized as an adjustment of the yield on the related loans using the interest method.

The accrual of interest on mortgage, commercial, and consumer loans is discontinued at the time the loan is generally 90 days delinquent unless the credit is 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, depending on management's assessment of the collectability of principal and interest, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions.

In determining the level of the allowance, the Bank categorizes the loan portfolio into various loan segments as follows:

- Consumer
- Residential real estate
- Commercial real estate
- Commercial
- Construction and development

The loan portfolio is further segmented by class for the purposes of monitoring delinquency status and risk rating (Special Mention, Substandard not Impaired, Substandard Impaired). Classes include the separation of the commercial real estate segment into non-owner occupied and owner occupied.

The allowance for loan losses consists of specific and general components and, at times, it may include an unallocated component. The specific component relates to impaired loans, which consist of commercial, commercial mortgage, commercial construction, and residential mortgage loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate these loans by major risk classifications. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value; or, as a practical matter in the case of a collateral dependent loan, the difference between the fair value of the collateral and the recorded amount of the loans. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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 or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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 record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis, generally at the fair value of the underlying collateral if the loan is collateral dependent. See Note 4 and Note 5 for additional information on the loan portfolio and the allowance for loan losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructuring (TDR)

Troubled debt restructurings occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, such as:

- Reduction of the stated interest rate
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk
- Reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement

A concession does not include an insignificant delay or shortfall in contractually required principal or interest payments, which may arise depending on specific facts and circumstances from a borrower's temporary operational downturns or seasonal delays.

Segment Reporting

As a community-oriented financial institution, substantially all of the Bank's operations involve the delivery of loan and deposit products to customers. The Bank makes operating decisions and assesses performance based on an ongoing review of these community banking operations, which constitute the only operating segment for financial reporting purposes.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance (BOLI) on a chosen group of employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The Bank is the owner of the pre-retirement split-benefit policies and in accordance with FASB ASC Topic 325 "*Investments in Insurance Contracts*", the amount recorded is the cash surrender value, which is the amount realizable. Income from the increase in cash surrender value of the policies is included in noninterest income on the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, the Bank would receive a death benefit which would be recorded as noninterest income.

Mortgage Servicing Rights (MSR)

The Bank recognizes as a separate asset the rights to service mortgage loans, whether those rights are acquired through purchase or loan origination activities. MSR are amortized in proportion to and over the estimated period of net servicing income. The estimated fair value of MSR is determined through a discounted analysis of future cash flows, incorporating numerous assumptions including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates. Impairment of the MSR is assessed on the fair value of those rights with any impairment recognized as a component of loan servicing fee income. The balance of the fee asset at December 31, 2021 and 2020 was $60,743 and $72,925, respectively. The amortization of the servicing rights totaled $12,182 and $14,097 for the years ended December 31, 2021 and 2020, respectively.

Other Real Estate Owned (OREO)

Real estate acquired as a result of foreclosure (including in-substance foreclosures), or by deed in lieu of foreclosure is classified as OREO and is initially recorded at the estimated fair market value, less the estimated cost to sell, at the date of foreclosure, thereby establishing a new cost basis. If the fair value declines subsequent to foreclosure, an OREO write-down is recorded through expense and the OREO balance is lowered to reflect the current fair value. Operating costs after acquisition are expensed. The historical average holding period for such properties is generally less than two years. See Note 7 for additional information.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Buildings, improvements and equipment are stated at cost less accumulated depreciation. Depreciation of equipment is computed on the straight-line method over the assets' estimated useful lives. Buildings and improvements are depreciated over the estimated useful life of the improvement. The estimated useful lives for calculating depreciation are as follows:

	Years
Buildings and improvements	7–39
Furniture, fixtures and equipment	3–12
Computer equipment	3–5

Maintenance and repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss, if applicable, is reflected in current operations. See Note 6 for additional information.

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 Corporation, (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 Corporation 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 the specific asset.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes related to temporary differences between book and tax bases of various accounts. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred tax assets and liabilities are reflected at income tax rates applicable to the period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Corporation files a consolidated federal tax return and individual component state tax returns as required by the current state tax code. See Note 12 for additional information.

Advertising Costs

Advertising costs are charged to expense in the year incurred. Advertising expenses totaled $66,414 and $73,929 for the years ended December 31, 2021 and December 31, 2020, respectively.

Off–Balance–Sheet Financial Instruments

Credit-related financial instruments. In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded. See Note 10 for additional information.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. See Note 14 and Note 15 for additional information.

Retirement Plans

401(k) plan. Employees who are at least 21 years of age may elect to make "before tax" 401(k) contributions to the plan between 1% and 100% of compensation, up to $19,500. Eligibility is immediate upon hire. Employees who are at least 50 years of age may make additional "catch-up" contributions up to $6,500. The Bank will match 50% up to 6% of compensation deferred by eligible employees. Contributions vest based on the schedule of the plan. See Note 16 for additional information.

Defined benefit post-retirement plan. The Bank has an unfunded defined benefit post-retirement plan that provides life and health insurance benefits to retired individuals. Employees who retire at age 65 or older with a minimum of 25 years of service are eligible for payment of 100 percent of basic health care benefit premiums. The level of benefits paid will continue at the same level as prior to retirement (i.e., employee/spouse coverage). Additionally, optional coverage may be obtained at the expense of the former employee. The plan is reviewed annually and may be modified or terminated at the discretion of the Board of Directors. The Board of Directors voted to change the plan effective January 1, 2009, so that only current retirees and current employees hired before June 30, 1984, who retire at age 65 or after would be eligible under the medical plan provision and only current retirees would continue to receive the life insurance plan provision. Future retirees would no longer be eligible. See Note 16 for additional information.

Restricted stock awards. Expense on restricted stock awards is based on the fair value of the shares on the grant date and is expensed on a straight-line basis over the vesting period. For the years ended December 31, 2021 and 2020, dilutive securities related to the restricted stock plan totaled 2,030 shares and 689 shares, respectively.

Treasury Stock

Stock held in the Treasury by the Corporation is accounted for using the cost method, which treats stock held in treasury as a reduction of total shareholders' equity. As shares of treasury stock are reissued, the shares are issued using the average cost basis of the shares in the treasury at the time of issuance.

Earnings per Common Share

Earnings per common share is computed by dividing net income available to common shareholders by the weighted-average basic and dilutive common shares outstanding.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the Consolidated Statement of Financial Condition, such items, along with net income, are components of comprehensive income. See Note 18 for additional information.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Under Topic ASC 606, the Bank applies the following steps when recognizing revenue from contracts with customers unless the revenue is related to a financial instrument and is scoped out of Topic 606: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when a performance obligation is satisfied. The Bank's contracts with customers are generally short term in nature, typically due within one year or less or cancellable by the Bank or the Bank's customer upon a short notice period. Performance obligations for the Bank's customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. The Bank typically receives payment from customers and recognizes revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time as the performance obligations have been satisfied. In cases where the Bank has not received payment despite satisfaction of our performance obligations, an estimate of the amount due in the period our performance obligations have been satisfied is accrued.

Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with noninterest revenue resulting from investment securities gains, loans servicing, gains on loans sold and earnings on BOLI are not within scope of this Topic. The main sources of noninterest income within the scope of the standard are service charges on deposit accounts and other service charges and fees. The Bank has contracts with its deposit customers where fees are charged if certain parameters are not met. These agreements can be cancelled at any time by either the Bank or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Bank also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, online banking fees, interchange fees, ATM fees and other transaction fees. All of these fees are attributable to specific performance obligations of the Bank where the revenue is recognized at a defined point in time upon the completion of the requested service/transaction.

Gains and losses on the sale of OREO are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Bank have been satisfied. Evidence of the buyer obtaining control of the asset include transfer of the property title, physical possession of the asset, and the buyer obtaining control of the risks and rewards related to the asset. If the Bank agrees to provide financing to facilitate the sale of OREO, additional analysis is performed to ensure that the contract for sale identifies the buyer and seller, the asset to be transferred, payment terms, and that the contract has a true commercial substance and that collection of amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is discounted impacting the gain/loss and the carrying value of the asset. The Bank does not make it a standard practice to provide the financing for OREO sales.

The Bank determined that the level of disaggregation of revenue as reported on the Consolidated Statement of Income provided a sufficient level of detail in order to properly analyze the significant revenue streams of the Bank and therefore no further disaggregation of any revenue streams within the scope of ASC 606 was considered to be necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of investment securities are as follows as of December 31, 2021 and 2020:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale				
Debt securities:				
U.S. treasuries and government agency securities	$19,477,544	$ 22,004	$ (351,481)	$19,148,067
State and municipal securities	2,938,542	47,862	-	2,986,404
Mortgage-backed securities	7,647,328	16,070	(99,861)	7,563,537
Total securities available-for-sale	$30,063,414	$ 85,936	$ (451,342)	$29,698,008

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale				
Debt securities:				
U.S. government agency securities	$ 1,160,558	$ 48,995	$ -	$ 1,209,553
State and municipal securities	3,706,158	84,458	-	3,790,616
Mortgage-backed securities	3,446,261	32,879	(6,926)	3,472,214
Total securities available-for-sale	$ 8,312,977	$ 166,332	$ (6,926)	$ 8,472,383

State and municipal securities and mortgage-backed securities with carrying values of $3,548,190 and $5,332,576 at December 31, 2021 and 2020, respectively, were pledged to secure public deposits and for other purposes required or permitted by laws.

At December 31, 2021 and 2020, there were no investments held-to-maturity.

The following is a schedule of maturities of investment securities available-for-sale at December 31, 2021. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Due within one year	$ 630,000	$ 631,225
Due after one year through five years	11,309,585	11,132,735
Due after five years through ten years	9,788,086	9,659,979
Due after ten years	8,335,743	8,274,069
Total	$ 30,063,414	$ 29,698,008

The Bank had no gross realized gains or losses recognized on the sale of investment securities during the years ended December 31, 2021 and December 31, 2020. No investment securities were transferred between classifications during 2021 or 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – UNREALIZED LOSSES ON INVESTMENT SECURITIES

The following table shows securities gross unrealized losses and fair value aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020:

	December 31, 2021					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries and government agency securities	$18,198,098	$(351,481)	$ -	$ -	$18,198,098	$ (351,481)
State and municipal securities	-	-	-	-	-	-
Mortgage-backed securities	5,976,446	(97,160)	88,079	(2,701)	6,064,525	(99,861)
Total	$24,174,544	$(448,641)	$ 88,079	$ (2,701)	$24,262,623	$ (451,342)

	December 31, 2020					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ -	$ -	$ -	$ -
State and municipal securities	-	-	-	-	-	-
Mortgage-backed securities	934,576	(3,414)	122,297	(3,512)	1,056,873	(6,926)
Total	$ 934,576	$ (3,414)	$ 122,297	$ (3,512)	$ 1,056,873	$ (6,926)

The Bank reviews its position quarterly and has asserted at December 31, 2021, the declines outlined in the above table represent temporary declines and the Bank does not intend to sell these securities nor is it more likely that the Bank will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 17 positions that were temporarily impaired at December 31, 2021. The Bank has concluded that the unrealized losses disclosed above are not other than temporary, but are the result of interest rate changes, sector credit ratings changes, or company-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS

Loans receivable consist of the following:

	At December 31,	
	2021	2020
Commercial	$ 22,594,298	$ 40,025,773
Commercial real estate:		
Non-owner occupied	68,121,661	68,635,356
Owner occupied	54,245,325	59,650,169
Total commercial real estate	122,366,986	128,285,525
Construction and development	9,580,252	9,417,407
Residential real estate	94,669,105	95,859,816
Consumer	5,138,019	6,543,196
Loans receivable, gross	254,348,660	280,131,717
Less:		
Allowance for loan losses	(4,556,384)	(4,179,898)
Net deferred loan fees	(328,135)	(761,538)
Loans receivable, net	$ 249,464,141	$ 275,190,281

The Company participated in the Paycheck Protection Program ("PPP"), administered directly by the U.S. SBA. The PPP provided loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. The Company funded $13.7 million (120 loans) in 2021 and $32.6 million (251 loans) in 2020. As of December 31, 2021, the Company had outstanding PPP principal balances of $5.7 million. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. In 2021, 278 loans totaling $32.7 million were forgiven by the SBA, and in 2020, 47 loans totaling $7.9 million were forgiven by the SBA. PPP loans are included in the Commercial loan category.

In accordance with the SBA terms and conditions on these PPP loans, in 2021 the Company received approximately $661,000 in fees associated with the processing of the 120 loans and approximately $1.3 million in fees associated with the processing of the 251 loans in 2020. Upon funding of the loans, these fees are deferred and amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2. For the years ended December 31, 2021 and 2020, net fee income recognized on PPP loans totaled $889,000 and $456,000, respectively.

NOTE 4 – LOANS (Continued)

Year-end nonaccrual loans, segregated by class of loans, were as follows:

	At December 31,	
	2021	2020
Commercial	$ 498,492	$ -
Commercial real estate:		
Non-owner occupied	319,521	201,823
Owner occupied	992,126	794,511
Construction and development	-	-
Residential real estate	511,810	590,344
Consumer	-	-
Total non-accrual loans	$ 2,321,949	$ 1,586,678

The following table presents impaired loans as of December 31, 2021 and 2020:

December 31, 2021	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial real estate:							
Non-owner occupied	$ 3,456,834	$ 220,510	$2,995,595	$3,216,105	$ 160,992	$ 2,870,059	$ 193,680
Owner occupied	729,658	718,487	-	718,487	-	1,059,841	43,805
Construction and development	-	-	-	-	-	-	-
Residential real estate	2,062,411	1,609,686	417,453	2,027,139	89,885	2,459,653	104,751
Consumer	46,948	-	46,948	46,948	1,929	50,049	2,610
Total	$ 6,295,851	$2,548,683	$3,459,996	$6,008,679	$ 252,806	$ 6,439,602	$ 344,846

December 31, 2020	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial real estate:							
Non-owner occupied	$ 887,562	$ 660,526	$ -	$ 660,526	$ -	$ 422,872	$ 24,878
Owner occupied	1,361,221	1,337,244	-	1,337,244	-	1,421,284	29,258
Construction and development	-	-	-	-	-	139,565	-
Residential real estate	3,138,968	2,685,916	407,552	3,093,468	92,925	2,705,268	126,758
Consumer	55,751	23,042	32,709	55,751	378	58,610	2,877
Total	$ 5,443,502	$4,706,728	$ 440,261	$5,146,989	$ 93,303	$ 4,747,599	$ 183,771

NOTE 4 – LOANS (Continued)

The following tables present loans by past due status as of December 31, 2021 and 2020:

December 31, 2021	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans	90 + Days and Accruing
Commercial	$ 22,095,806	$ -	$ -	$ 498,492	$ 498,492	$ 22,594,298	$ -
Commercial real estate:							
Non-owner occupied	67,901,151	-	-	220,510	220,510	68,121,661	-
Owner occupied	54,099,665	-	-	145,660	145,660	54,245,325	-
Construction and development	9,580,252	-	-	-	-	9,580,252	-
Residential real estate	94,125,702	34,319	-	509,084	543,403	94,669,105	-
Consumer	5,138,019	-	-	-	-	5,138,019	-
Total	$ 252,940,595	$ 34,319	$ -	$ 1,373,746	$ 1,408,065	$ 254,348,660	$ -

December 31, 2020	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans	90 + Days and Accruing
Commercial	$ 39,868,732	$ 157,041	$ -	$ -	$ 157,041	$ 40,025,773	$ -
Commercial real estate:							
Non-owner occupied	68,533,093	-	-	102,263	102,263	68,635,356	-
Owner occupied	58,855,658	-	-	794,511	794,511	59,650,169	-
Construction and development	9,417,407	-	-	-	-	9,417,407	-
Residential real estate	95,052,054	224,263	-	583,499	807,762	95,859,816	-
Consumer	6,489,373	30,781	-	23,042	53,823	6,543,196	23,042
Total	$ 278,216,317	$ 412,085	$ -	$ 1,503,315	$ 1,915,400	$ 280,131,717	$ 23,042

The following tables represent credit exposures by internally assigned grades as of December 31, 2021 and December 31, 2020 for the commercial loan portfolio. The grading analysis evaluates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

The Bank's internally assigned grades are as follows: "Pass" loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. "Special Mention" loans have a potential weakness or risk exists, which could cause a more serious problem if not corrected. "Substandard" loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. "Loss" loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

NOTE 4 – LOANS (Continued)

	Risk Ratings					
December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial	$ 22,095,806	$ -	$ 498,492	$ -	$ -	$ 22,594,298
Commercial real estate:						
Non-owner occupied	67,802,140	-	319,521	-	-	68,121,661
Owner occupied	52,680,372	-	1,564,953	-	-	54,245,325
Construction and development	9,580,252	-	-	-	-	9,580,252
Total	$ 152,158,570	$ -	$ 2,382,966	$ -	$ -	$ 154,541,536

	Risk Ratings					
December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial	$ 40,025,773	$ -	$ -	$ -	$ -	$ 40,025,773
Commercial real estate:						
Non-owner occupied	65,070,721	-	3,564,635	-	-	68,635,356
Owner occupied	57,631,578	425,211	1,593,380	-	-	59,650,169
Construction and development	9,417,407	-	-	-	-	9,417,407
Total	$ 172,145,479	$ 425,211	$ 5,158,015	$ -	$ -	$ 177,728,705

The following table presents residential real estate and consumer performing and non-performing loans based solely on payment activity for the periods ended December 31, 2021 and 2020 that have not been assigned an internal risk grade.

December 31, 2021	Performing	Non-Performing	Total
Residential real estate	$ 94,157,295	$ 511,810	$ 94,669,105
Consumer	5,138,019	-	5,138,019
Total	$ 99,295,314	$ 511,810	$ 99,807,124

December 31, 2020	Performing	Non-Performing	Total
Residential real estate	$ 95,269,472	$ 590,344	$ 95,859,816
Consumer	6,520,154	23,042	6,543,196
Total	$ 101,789,626	$ 613,386	$ 102,403,012

NOTE 4 – LOANS (Continued)

Loan modifications that were considered TDRs completed during the year are as follows:

	During the Year Ended December 31, 2021		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	3	$ 2,987,940	$ 2,987,940
Residential real estate	1	42,303	42,303
Consumer	-	-	-
	4	$ 3,030,243	$ 3,030,243

	During the Year Ended December 31, 2020		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	1	$ 159,749	$ 159,749
Residential real estate	-	-	-
Consumer	1	4,247	4,247
	2	$ 163,996	$ 163,996

As of December 31, 2021, there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a TDR. As of December 31, 2021, the Bank did not have any loan modifications classified as TDR which subsequently defaulted. The allowance for loan losses related to TDRs totaled $250,807 at December 31, 2021 and $93,303 at December 31, 2020.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

The following summarizes activity related to the allowance for loan losses, by portfolio segment, for the years ended December 31, 2021 and 2020.

	For the Year ended December 31, 2021						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Balance, December 31, 2020	$ 306,579	$ 1,964,727	$ 591,358	$ 885,584	$ 75,779	$ 355,871	$ 4,179,898
Provision for loan losses	283,143	93,629	(95,387)	167,963	(12,914)	(136,434)	300,000
Charge-offs	-	-	-	(9,219)	(4,901)	-	(14,120)
Recoveries	-	-	85,000	5,000	606	-	90,606
Balance, December 31, 2021	$ 589,722	$ 2,058,356	$ 580,971	$ 1,049,328	$ 58,570	$ 219,437	$ 4,556,384

	For the Year ended December 31, 2020						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Balance, December 31, 2019	$ 207,289	$ 1,702,224	$ 479,273	$ 767,709	$ 89,561	$ 145,110	$ 3,391,166
Provision for loan losses	99,290	270,778	205,849	149,927	(5,606)	210,761	930,999
Charge-offs	-	(8,275)	(93,764)	(32,202)	(9,770)	-	(144,011)
Recoveries	-	-	-	150	1,594	-	1,744
Balance, December 31, 2020	$ 306,579	$ 1,964,727	$ 591,358	$ 885,584	$ 75,779	$ 355,871	$ 4,179,898

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The changes in the allowance for losses in 2021 were driven by an increase in specific reserves on impaired loans and adjustments to the qualitative factors due to the economic and regulatory environment, which resulted in an increase in the provision for loan losses allocation.

The Bank's recorded investment in loans as of December 31, 2021 and 2020, related to each balance in the allowance for loan losses by portfolio segment and disaggregated based on the Bank's impairment methodology was as follows:

	At December 31, 2021						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ -	$ 160,992	$ -	$ 89,885	$ 1,929	$ -	$ 252,806
Collectively evaluated for impairment	589,722	1,897,364	580,971	959,443	56,641	219,437	4,303,578
Total	$ 589,722	$ 2,058,356	$ 580,971	$ 1,049,328	$ 58,570	$ 219,437	$ 4,556,384
Loans:							
Individually evaluated for impairment	$ -	$ 3,934,592	$ -	$ 2,027,139	$ 46,948	$ -	$ 6,008,679
Collectively evaluated for impairment	22,594,298	118,432,394	9,580,252	92,641,966	5,091,071	-	248,339,981
Total	$ 22,594,298	$ 122,366,986	$ 9,580,252	$ 94,669,105	$ 5,138,019	$ -	$ 254,348,660

	At December 31, 2020						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 92,925	$ 378	$ -	$ 93,303
Collectively evaluated for impairment	306,579	1,964,727	591,358	792,659	75,401	355,871	4,086,595
Total	$ 306,579	$ 1,964,727	$ 591,358	$ 885,584	$ 75,779	$ 355,871	$ 4,179,898
Loans:							
Individually evaluated for impairment	$ -	$ 1,997,770	$ -	$ 3,093,468	$ 55,751	$ -	$ 5,146,989
Collectively evaluated for impairment	40,025,773	126,287,755	9,417,407	92,766,348	6,487,445	-	274,984,728
Total	$ 40,025,773	$ 128,285,525	$ 9,417,407	$ 95,859,816	$ 6,543,196	$ -	$ 280,131,717

NOTE 6 – PREMISES AND EQUIPMENT

The following is a summary of the cost and accumulated depreciation of premises and equipment.

	At December 31,	
	2021	2020
Land	$ 1,261,771	$ 1,261,771
Premises and improvements	6,534,670	6,365,702
Furniture, fixtures, and equipment	2,177,558	1,984,887
Total	9,973,999	9,612,360
Accumulated depreciation	(6,327,801)	(6,202,222)
Premises and equipment, net	$ 3,646,198	$ 3,410,138

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to $256,881 and $257,748, respectively.

NOTE 7 – OTHER REAL ESTATE OWNED

Other real estate owned (OREO) totaled $0 and $173,285 at December 31, 2021 and December 31, 2020, respectively. At December 31, 2021 residential real estate loans in process of foreclosure totaled $340,196.

NOTE 8 - DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2021 and 2020 was approximately $7,945,089 and $7,528,531, respectively.

At December 31, 2021, the scheduled maturities of CDs and other time deposits are as follows:

2022	$	32,454,578
2023		9,962,314
2024		2,613,064
2025		2,593,935
2026		2,893,350
Total	$	50,517,241

NOTE 9 – SHORT-TERM BORROWINGS

The Bank entered into continuing lending agreements regarding advances with the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, and Atlantic Community Bankers Bank.

Under the Federal Reserve Bank agreement, the Bank can borrow overnight advances at the Federal Reserve discount window. Advances are payable on demand and include interest at the rate in effect when the advance is made. In addition, the Bank is required to pledge collateral as agreed upon. As of December 31, 2021, and 2020, the collateral value of the real estate loans pledged was $52,096,706 and $54,261,735, respectively, with no outstanding advances.

Under the Federal Home Loan Bank agreement, the Bank can borrow overnight advances for an unlimited length of time. There is no mandatory pay down to zero within a certain number of days, but acknowledgment must be made daily to maintain a balance. As of December 31, 2021, and 2020, the collateral value of the real estate loans pledged was $1,376,415 and $1,905,120, respectively, with no outstanding advances. The Bank is eligible to borrow, based on pledged collateral, up to 30 percent of its total assets. As of December 31, 2021, the Bank has a maximum borrowing capacity with the Federal Home Loan Bank of approximately $112,707,824.

Under the Atlantic Community Bankers Bank agreement, the Bank can borrow overnight advances up to $4,000,000 with a mandatory pay down to zero within 14 days, with no collateral required. As of December 31, 2021 and December 31, 2020, the Bank had no outstanding advances.

In April 2021, the Bank entered into an $11.0 million irrevocable letter of credit with the Federal Home Loan Bank of New York, the term of which is one year. The letter of credit is collateral for municipal deposits.

NOTE 10 – OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments. To meet the financing needs of its customers in the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition.

NOTE 10 – OFF-BALANCE SHEET ACTIVITIES (Continued)

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Total reserves for off-balance sheet commitments at December 31, 2021 and 2020 were $40,000 which are included in accrued expenses and other liabilities in the Consolidated Statements of Financial Condition.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	At December 31,	
	2021	2020
Bounce overdraft account commitments	$ 1,773,943	$ 1,889,776
Unfunded commitments and lines of credit	35,737,766	33,527,969
Commercial and standby letter of credit	904,229	1,127,901
Total	$38,415,938	$36,545,646

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. 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 drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Unfunded commitments, available commercial lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may be either unsecured or contain collateral. At December 31, 2021 and 2020, the Bank's unfunded commitment total included commitments to provide overdraft protection totaling $1,773,943 and $1,889,776 respectively. These commitments are included above to be consistent with regulatory requirements.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Most letters of credit 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 holds collateral supporting those commitments for which collateral is deemed necessary.

The Bank was not required to perform on any financial guarantees during the years ended December 31, 2021 and 2020. The Bank did not incur any losses on its commitments during years ended December 31, 2021 or 2020.

NOTE 11 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The majority of the Bank's business activity is with customers located within the southern region of the State of New Jersey and the majority of investments in municipal securities involve governmental entities within the Bank's market area.

NOTE 12 – INCOME TAXES

The provision for income taxes consists of:

	For the Years Ended December 31, 2021	2020
Federal:		
Current	$ 657,376	$ 310,298
Deferred	(256,176)	9,655
	401,200	319,953
State:		
Current	279,513	377,825
Deferred	49,487	(169,678)
	329,000	208,147
Total	$ 730,200	$ 528,100

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, are as follows:

	At December 31, 2021	2020
Deferred tax assets (liabilities):		
Allowance for loan losses	$1,366,915	$1,253,970
Deferred loan fees	177,788	128,472
Nonaccrual loan interest	17,061	14,097
Post retirement benefits	89,875	125,102
Accumulated depreciation	12,607	(31,248)
Net unrealized gain (loss) on securities available-for-sale	76,735	(33,475)
Other	(22,662)	(18,644)
Net deferred tax assets	$1,718,319	$1,438,274

No valuation allowance was established at December 31, 2021, in view of certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Corporation’s earnings potential.

NOTE 12 - INCOME TAXES (Continued)

The following is a reconciliation of the Corporation's effective income tax rate:

	For the Years Ended December 31,			
	2021		2020	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Provision at statutory rate	$ 562,636	21.0%	$ 419,431	21.0%
State income tax expense	259,910	9.7%	163,451	8.2%
Tax exempt interest	(15,296)	-0.6%	(17,619)	-0.9%
BOLI income	(39,856)	-1.5%	(38,340)	-1.9%
Other, net	(37,194)	-1.4%	1,177	0.1%
Actual income tax expense and effective rate	$ 730,200	27.2%	$ 528,100	26.5%

Management evaluated the Corporation's tax position and concluded that the Corporation had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance. Consequently, no accrual for interest and penalties was deemed necessary for the year ended December 31, 2021. The Corporation files tax returns in the U.S. Federal jurisdiction and the State of New Jersey. Generally, the Corporation is no longer subject to income tax examinations by the U.S. federal tax authorities for years before December 31, 2018, and by New Jersey tax authorities for years before December 31, 2017.

NOTE 13 – RELATED PARTIES

The Bank has transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (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. The Bank held deposits of $1,848,071 and $3,301,784 for related parties at December 31, 2021 and 2020, respectively. During 2021 and 2020, interest paid by the Bank on these deposits amounted to $3,943 and $4,255, respectively.

A summary of the activity on related-party loans, comprised of directors and executive officers and their related companies, consist of the following:

	For the Years Ended December 31,	
	2021	2020
Balance at beginning of year	$ 247,443	$ 348,708
Additions	1,540,000	1,600,000
Repayments	(1,611,795)	(1,701,265)
Balance at end of year	$ 175,648	$ 247,443

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and due from banks, interest-bearing deposits with other institutions, Federal funds sold, investment in interest-earning time deposits, bank owned life insurance, restricted stock and accrued interest: The carrying amounts of these financial instruments approximate their fair value and are considered Level I measurements.

The estimated fair values and related carrying amounts of the Bank's remaining financial instruments not carried at fair value on a recurring basis are as follows:

	At December 31, 2021				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Loans receivable, net	$ 249,792,276	$ 246,434,007	$ -	$ -	$ 246,434,007
Financial liabilities:					
Deposits	$ 344,527,126	$ 344,405,830	$ 294,009,885	$ -	$ 50,395,945

	At December 31, 2020				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Loans receivable, net	$ 275,190,281	$ 270,781,002	$ -	$ -	$ 270,781,002
Financial liabilities:					
Deposits	$ 300,423,693	$ 300,823,963	$ 248,779,915	$ -	$ 52,044,048

NOTE 15 – FAIR VALUE MEASUREMENT

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The fair value of investment securities available-for-sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

NOTE 15 – FAIR VALUE MEASUREMENT (Continued)

The Bank has measured impairment on impaired loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property, which are also included in the net realizable value. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for loan losses or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a Level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the table below as it is not currently being carried at its fair value. At December 31, 2020, there were no collateral-dependent impaired loans that had specific reserves or that had been written-down to their fair value during the year.

OREO properties are recorded at the estimated fair market value, less the estimated cost to sell, at the date of foreclosure. Fair market value is determined as described above. At December 31, 2021, there were no OREO properties held on the Consolidated Statement of Financial Condition.

The following tables present the assets reported on the Consolidated Statement of Financial Condition at their fair value as of December 31, 2021 and 2020, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	At December 31, 2021			
	Level I	**Level II**	**Level III**	**Total**
Assets measured at fair value on a recurring basis:				
Investment securities available-for-sale:				
U.S. government agencies	$ -	$ 19,148,067	$ -	$ 19,148,067
State and municipal securities	$ -	$ 2,986,404	$ -	$ 2,986,404
Mortgage-backed securities	$ -	$ 7,563,537	$ -	$ 7,563,537
Assets measured at fair value on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 106,359	$ 106,359

	At December 31, 2020			
	Level I	**Level II**	**Level III**	**Total**
Assets measured at fair value on a recurring basis:				
Investment securities available-for-sale:				
U.S. government agencies	$ -	$ 1,209,553	$ -	$ 1,209,553
State and municipal securities	$ -	$ 3,790,616	$ -	$ 3,790,616
Mortgage-backed securities	$ -	$ 3,472,214	$ -	$ 3,472,214
Assets measured at fair value on a nonrecurring basis:				
Other real estate owned, net	$ -	$ -	$ 173,285	$ 173,285

NOTE 15 – FAIR VALUE MEASUREMENT (Continued)

The following tables provide a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2021 and 2020:

	At December 31, 2021				
	Quantitative Information About Level III Fair Value Measurements				
	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$106,359	Appraisal of collateral	Appraisal adjustments	17%	17%

	At December 31, 2020				
	Quantitative Information About Level III Fair Value Measurements				
	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Other real estate owned, net	$173,285	Appraisal of collateral	Appraisal adjustments	17%	17%

NOTE 16 - EMPLOYEE BENEFITS

401k Plan

For the years ended December 31, 2021 and 2020, expense attributed to the 401k plan amounted to $107,919 and $104,631, respectively.

Defined Benefit Plan

The following table sets forth the change in plan assets and benefit obligation.

	For the Years Ended December 31,	
	2021	2020
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 1,114,130	$ 1,080,670
Service cost	5,084	4,452
Interest cost	27,220	34,308
Actuarial (gain) loss	(152,310)	43,208
Benefits paid	(50,027)	(48,508)
Projected benefit obligation at end of year	$ 944,097	$ 1,114,130
Change in plan assets:		
Contributions	$ 50,027	$ 48,508
Benefits paid	(50,027)	(48,508)
Funded status at end of year	$ (944,097)	$ (1,114,130)
Amounts recognized in Statement of Financial Condition:		
Current liabilities	$ (52,051)	$ (50,585)
Noncurrent liabilities	(892,046)	(1,063,545)
	$ (944,097)	$ (1,114,130)
Amounts recognized in accumulated other comprehensive income consist of:		
Net loss	$ 38,404	$ 213,902
Accumulated other comprehensive income	$ 38,404	$ 213,902

NOTE 16 - EMPLOYEE BENEFITS (Continued)

The accumulated benefit obligation was $944,097 and $1,114,130 at December 31, 2021 and 2020, respectively.

Components of Net Periodic Benefit Cost

The following are the components of net periodic benefit cost.

	For the Years Ended December 31,	
	2021	2020
Net periodic benefit cost:		
Service cost	$ 5,084	$ 4,452
Interest cost	27,220	34,308
Amortization of unrecognized loss	23,188	14,172
Net periodic benefit cost	$ 55,492	$ 52,932

Assumptions

Weighted-average assumptions used to determine benefit obligations.

	At December 31,	
	2021	2020
Weighted average assumptions (end of year):		
Discount rate	3.00%	2.50%

Weighted-average assumptions used to determine net periodic benefit cost.

	For the Years Ended December 31,	
	2021	2020
Weighted average assumptions (beginning of year):		
Discount rate	2.50%	3.25%
Amortization period - gains and losses (years)	4.42	5.42
Amortization periods - plan amendments (years)	2.77	3.76
First year trend rate	6.50%	6.50%
Ultimate trend rate	5.00%	5.00%
Year rate reaches the ultimate trend rate	2027	2026

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets, as well as future rates expected to be returned.

Expected future benefit payments for the fiscal years ending:	
2022	$ 52,051
2023	53,501
2024	54,725
2025	56,846
2026	58,438
2027-2031	299,930
Total	$ 575,491

NOTE 16 - EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan

The Company maintains a Restricted Stock Plan (the Plan) whereby certain employees are eligible to receive awards of restricted stock based upon performance related requirements. Awards granted under the Plan are in the form of the Company's common stock and may be subject to certain vesting requirements including in the case of employees, continuous employment, or service with the Company. The Plan assists the Company in attracting, retaining, and motivating employees to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. The following table details the vesting, awarding, and forfeiting of unearned restricted shares during 2021:

	Shares	Weighted Average Cost
Nonvested Shares, Beginning of Year	2,350	$ 15.46
Granted	1,250	18.00
Forfeited	-	-
Vested	-	-
Nonvested Shares, End of Year	3,600	$ 16.34

Compensation cost related to restricted stock is recognized based on the market price of the stock at the grant date over the vesting period. Compensation expense related to restricted stock was $18,046 and $10,754 for the years ended December 31, 2021 and 2020, respectively. The per share weighted-average grant-date fair value of restricted shares granted during 2021 and 2020 was $18.00 and $13.00, respectively. At December 31, 2021, the total compensation cost related to nonvested awards that has not yet been recognized was $24,170, which is expected to be recognized over the next 3 years.

NOTE 17 - REGULATORY MATTERS

Loans

Federal law prevents the Corporation from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus. Loans or advances are limited to 15 percent of the Corporation's capital stock and surplus.

Dividends

The Bank is subject to a dividend restriction that generally limits the amount of dividends that can be paid by a national bank. Prior approval of the Office of the Comptroller of the Currency (OCC) is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus.

At December 31, 2021 the Bank's retained earnings available for the payment of dividends prior to regulatory approval was $2,813,887 plus 2022 net profits retained up to the date of the dividend declaration.

NOTE 17 - REGULATORY MATTERS (Continued)

Capital Requirements

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2021 and December 31, 2020, the Bank met all capital adequacy requirements to which it is subject.

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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) established five capital categories ranging from "well capitalized" to "critically undercapitalized". Should any institution fail to meet the requirements to be considered "adequately capitalized", it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2021, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total risk-based capital, Common Equity Tier I (CET I) risk-based capital, and Tier I risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I leverage ratio (as defined) to average assets (as defined).

The actual capital amounts, ratios and regulatory guidelines for the Bank are as follows:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2021	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Risk-based capital ratios:						
Tier 1 risk-based capital	$ 29,652,840	12.50%	$ 14,227,942	6.00%	$ 18,970,589	8.00%
CET 1 risk-based capital	$ 29,652,840	12.50%	$ 10,670,956	4.50%	$ 15,413,603	6.50%
Total risk-based capital	$ 32,637,146	13.76%	$ 18,970,589	8.00%	$ 23,713,236	10.00%
Tier 1 leverage ratio	$ 29,652,840	7.84%	$ 15,126,247	4.00%	$ 18,907,809	5.00%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2020	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Risk-based capital ratios:						
Tier 1 risk-based capital	$ 28,154,237	12.52%	$ 13,493,723	6.00%	$ 17,991,631	8.00%
CET 1 risk-based capital	$ 28,154,237	12.52%	$ 10,120,292	4.50%	$ 14,618,200	6.50%
Total risk-based capital	$ 30,982,820	13.78%	$ 17,991,631	8.00%	$ 22,489,538	10.00%
Tier 1 leverage ratio	$ 28,154,237	8.46%	$ 13,307,271	4.00%	$ 16,634,088	5.00%

NOTE 18 - ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in accumulated other comprehensive loss for the years ended December 31, 2021 and 2020 is as follows:

	Accumulated Other Comprehensive Loss		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available-for-Sale	Total
Balance at December 31, 2019	$ (146,043)	$ (39,861)	$ (185,904)
Other comprehensive income (loss) before reclassifications	(34,136)	165,792	131,656
Reclassification adjustments: Postretirement plan	11,196	-	11,196
Period change	(22,940)	165,792	142,852
Balance at December 31, 2020	(168,983)	125,931	(43,052)
Other comprehensive income (loss) before reclassifications	120,219	(414,602)	(294,383)
Reclassification adjustments: Postretirement plan	18,319	-	18,319
Period change	138,538	(414,602)	(276,064)
Balance at December 31, 2021	$ (30,445)	$ (288,671)	$ (319,116)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive loss:

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss For the Year Ended: 31-Dec-21	31-Dec-20	Affected Line Item in the Consolidated Statement of Income
Defined benefit pension plan [1]:			
Amortization of unrecognized loss	$ (23,188)	$ (14,172)	Other expense
Related income tax expense	4,869	2,976	Income tax expense
Net effect on accumulated other comprehensive loss for the period	(18,319)	(11,196)	
Total reclassifications for the period	$ (18,319)	$ (11,196)	

(1) Included in the computation of net periodic pension cost. See Note 16, “Employee Benefits” for additional details.
(2) Amounts in parenthesis indicate credits.

NOTE 19 – SUBSEQUENT EVENTS

Management has reviewed events occurring through April 12, 2022, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

THE FIRST NATIONAL BANK OF ELMER OFFICERS

Brian W. Jones	*President/Chief Executive Officer*
Robert R. Bender	*Executive Vice President/Chief Lending Officer*
Matthew A. Swift	*Executive Vice President/Chief Financial Officer/Chief Operating Officer*
Matthew J. Haines	*Senior Vice President/Retail Banking Officer*
Cynthia L. Volk	*Senior Vice President/Corporate Controller*
Timothy K. Anderson	*Vice President/Commercial Loan Officer*
Kevin C. Cunningham	*Vice President/Retail Lending Officer*
Ray C. Garcia	*Vice President/Commercial Loan Officer*
Anthony Marino	*Vice President/Commercial Loan Officer*
Michael A. Penk	*Vice President/Commercial Loan Officer*
Trevor Watson	*Vice President/Commercial Loan Officer*
Mark A. DiRugeris, Sr.	*Vice President/Special Assets Relationship Manager*
Donna M. Dougherty	*Vice President/Deposit Operations Manager*
Raymond T. Glanville	*Vice President/Credit Administration Officer*
Christopher Greenfield	*Vice President/IT Operations Manager*
Melanie Prickett	*Vice President/Enterprise Risk Officer/Senior BSA Officer*
Kim S. Robinson	*Vice President/Retail Banking Operations Manager*
Beth A. Waddington	*Vice President/BSA Officer*
Jessie J. Coles	*Assistant Vice President/Assistant Controller*
Kimberly L. Scacco	*Assistant Vice President/Loan Operations Manager*
Ruth C. Thibault	*Assistant Vice President/Community Banking Manager*
Luis Maldonado	*Assistant Cashier/Community Banking Manager*
Charlene Rutherford	*Assistant Cashier/Community Banking Manager*
Jodie S. Serbeck	*Assistant Cashier/Community Banking Manager*
Cindi Torelli	*Assistant Cashier/Human Resources Administrator*

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