
BANCORP34
STRONG & STEADY SINCE 1934
2021 ANNUAL REPORT

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BANCORP 34
STRONG & STEADY SINCE 1934

Dear Fellow Shareholders,

I'm pleased to report a year filled with successes for our team. On top of record operating earnings and strong balance sheet growth, we successfully bought back a significant volume of our stock. I've shared some additional details below.

Earnings

Our Company generated record operating earnings of $3.4 million, or $1.24 per share, for 2021. The 89% increase in net income over the prior year resulted in a 110% increase in earnings per share due to the impacts of stock buybacks during the year. The year's net income of $3.4 million is net of a $2.2 million pre-tax charge related to the termination of a legacy pension plan that has been frozen since 2006.

Balance Sheet Growth

The Company ended 2021 with total assets of $527.7 million, an increase of $85.7 million, more than 19%, over the year-ago period. Total loans increased by $62.0 million, from $353.6 million to $415.6 million, while only $1.6 million of the $56.2 million in Paycheck Protection Program ("PPP") loans we originated remained outstanding as of December 31, 2021. Total deposits increased by $67.1 million, from $370.7 million to $437.8 million.

We successfully raised $25.0 million of subordinated debt in an over-subscribed offering that took place in the summer of 2021. $10.0 million of this was contributed to the Bank as additional capital to support our growth, with the remaining cash held for stock buybacks and other general corporate purposes.

Capitalization

The Company's stock traded at significant discounts to tangible book value throughout 2021, and we capitalized on these trading prices and aggressively bought back our stock. During 2021 we repurchased nearly 610,000 shares of BCTF stock representing almost 20% of the shares outstanding. These purchases were accretive to both tangible book value per share and earnings per share.

Tier 1 capital at Bank 34 increased from $42.3 million to $56.4 million due to $10 million in subordinated debt proceeds contributed to the Bank as capital, combined with earnings for the year. The Bank's Tier 1 leverage ratio increased from 9.41% to 10.90% despite the nearly 20% annual increase in assets.

The trading price of the stock increased from $11.35 to $13.51 during 2021, and finished the first quarter of 2022 at $16.20.

In the first quarter of 2022 we increased our quarterly dividend by 40% to $0.07 per share.

Our team continues to work hard every day to provide excellent service to our customers, make a positive impact on the communities we serve, and improve the Company's performance and the value of our investment in it. On behalf of every member of the Bancorp 34 team and the Board of Directors, we thank you for your continued support and trust in us.

Sincerely,

James T. Crotty

James T. Crotty
President and Chief Executive Officer

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MOSSADAMS

Report of Independent Auditors

To the Stockholders and the Board of Directors
Bancorp 34, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Bancorp 34, Inc, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Bancorp 34, Inc as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bancorp 34, Inc 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 consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bancorp 34, Inc's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 Bancorp 34, Inc'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bancorp 34, Inc'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.

Moss Adams LLP

Phoenix, Arizona
March 22, 2022

BANCORP 34, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 7,230,924	$ 8,201,201
Interest-bearing deposits with banks	8,270,000	3,785,000
Total cash and cash equivalents	15,500,924	11,986,201
Available for sale securities, at fair value	67,917,240	54,343,254
Held to maturity securities, at amortized cost	5,365,333	-
Loans held for investment	415,623,752	353,565,535
Allowance for loan losses	(5,328,474)	(4,820,883)
Loans held for investment, net	410,295,278	348,744,652
Premises and equipment, net	7,966,404	8,304,432
Operating lease right-of-use assets	425,633	950,042
Stock in financial institutions, restricted, at cost	1,785,861	1,324,361
Accrued interest receivable	1,353,486	1,657,014
Deferred income tax asset, net	2,742,886	2,111,019
Bank owned life insurance	11,360,320	11,111,634
Core deposit intangible, net	-	97,604
Prepaid and other assets	2,938,795	1,291,463
TOTAL ASSETS	$ 527,652,160	$ 441,921,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand deposits	$ 100,118,321	$ 76,492,839
Savings and NOW deposits	283,114,602	219,777,876
Time deposits	54,548,860	74,479,109
Total deposits	437,781,783	370,749,824
Federal Home Loan Bank Advances	19,000,000	19,000,000
Subordinated debt, net of issuance costs	24,447,165	-
Escrows	201,133	267,503
Operating lease liabilities	468,393	1,032,758
Accrued interest and other liabilities	5,011,690	4,838,206
Total liabilities	486,910,164	395,888,291
Stockholders' equity		
Preferred stock, $0.01 par value, 50,000,000 authorized, none issued and outstanding	-	-
Common stock, $0.01 par value, 100,000,000 authorized, 2,523,398 and 3,137,573 issued and outstanding at December 31, 2021 and 2020, respectively.	25,234	31,376
Additional paid-in capital	14,647,059	22,811,166
Retained earnings	27,146,868	24,324,634
Accumulated other comprehensive income	387,627	388,416
Unearned employee stock ownership plan shares	(1,464,792)	(1,522,207)
Total stockholders' equity	40,741,996	46,033,385
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 527,652,160	$ 441,921,676

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2021	2020
Interest income		
Interest and fees on loans	**$ 19,318,117**	$ 18,285,426
Interest on securities	**1,355,295**	1,290,725
Interest on other interest-earning assets	**52,392**	115,574
Total interest income	**20,725,804**	19,691,725
Interest expense		
Interest on deposits	**1,484,985**	3,155,902
Interest on borrowings	**676,855**	552,990
Total interest expense	**2,161,840**	3,708,892
Net interest income	**18,563,964**	15,982,833
Provision for loan losses	**500,000**	1,944,000
Net interest income after provision for loan losses	**18,063,964**	14,038,833
Noninterest income		
Gain on sale of loans	**239,523**	24,959
Gain on sale of securities	**202,324**	10,157
Service charges and fees	**477,657**	443,901
Bank owned life insurance	**359,150**	363,904
Loss on disposal and impairment of fixed assets	**(15,344)**	(240,663)
Other	**185,761**	151,774
Total noninterest income	**1,449,071**	754,032
Noninterest expense		
Salaries and benefits	**9,999,906**	7,023,314
Occupancy	**1,324,546**	1,393,807
Data processing fees	**1,966,814**	2,009,382
FDIC and other insurance expense	**231,442**	263,497
Professional fees	**498,521**	783,273
Advertising	**111,635**	193,402
Other	**1,112,411**	834,001
Total noninterest expense	**15,245,275**	12,500,676
Income before provision for income taxes	**4,267,760**	2,292,189
Provision for income taxes	**868,230**	496,930
NET INCOME	**3,399,530**	1,795,259
Other comprehensive income		
Other comprehensive income (loss)	**(7,539)**	107,653
Tax effect of other comprehensive income (loss)	**6,748**	(26,492)
Other comprehensive income (loss), net of tax	**(791)**	81,161
COMPREHENSIVE INCOME	**$ 3,398,739**	**$ 1,876,420**
Earnings per common share - Basic	**$ 1.24**	$ 0.59
Earnings per common share - Diluted	**$ 1.24**	$ 0.59

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total Stockholders' Equity
BALANCE DECEMBER 31, 2019	3,208,618	$ 32,086	$ 23,168,176	$ 23,157,134	$ 307,255	$ (1,581,412)	$ 45,083,239
Net income	-	$ -	$ -	$ 1,795,259	$ -	$ -	$ 1,795,259
Unrealized gain on available-for-sale securities, net	-	-	-	-	1,427,516	-	1,427,516
Unrecognized pension liability	-	-	-	-	(1,346,355)	-	(1,346,355)
Restricted stock awards	2,000	20	(20)	-	-	-	-
Restricted stock forfeitures	(3,200)	(32)	32	-	-	-	-
Amortization of equity awards	-	-	352,886	-	-	59,205	412,091
Share repurchase	(69,845)	(698)	(709,908)	-	-	-	(710,606)
Dividends paid - $0.20 per share	-	-	-	(627,759)	-	-	(627,759)
BALANCE DECEMBER 31, 2020	**3,137,573**	**$ 31,376**	**$ 22,811,166**	**$ 24,324,634**	**$ 388,416**	**$ (1,522,207)**	**$ 46,033,385**
Net income	-	$ -	$ -	$ 3,399,530	$ -	$ -	$ 3,399,530
Unrealized loss on available-for-sale securities, net	-	-	-	-	(1,347,143)	-	(1,347,143)
Unrecognized pension liability	-	-	-	-	1,346,354	-	1,346,354
Restricted stock awards	2,500	25	(25)	-	-	-	-
Restricted stock forfeitures	(6,800)	(68)	68	-	-	-	-
Amortization of equity awards	-	-	329,001	-	-	57,415	386,416
Share repurchase	(609,875)	(6,099)	(8,493,152)	-	-	-	(8,499,251)
Dividends paid - $0.20 per share	-	-	-	(577,296)	-	-	(577,296)
BALANCE DECEMBER 31, 2021	**2,523,398**	**$ 25,234**	**$ 14,647,059**	**$ 27,146,868**	**$ 387,627**	**$ (1,464,792)**	**$ 40,741,996**

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2021	2020
Cash flows from operating activities		
Net income	**$ 3,399,530**	$ 1,795,259
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	**471,905**	522,751
Stock dividends on financial institution stock	**(7,300)**	(52,500)
Amortization of premiums and discounts on securities, net	**376,815**	338,284
Amortization of equity awards	**386,416**	412,091
Amortization of core deposit intangible	**97,604**	35,448
Gain on sale of loans	**(239,523)**	(24,959)
Proceeds from sale of loans	**2,638,930**	565,030
Gain on sale of securities	**(202,324)**	(10,157)
Provision for loan losses	**500,000**	1,944,000
Fixed asset impairments	**40,000**	240,663
Net appreciation on bank-owned life insurance	**(248,686)**	(261,549)
Deferred income tax expense	**(625,117)**	(230,489)
Changes in operating assets and liabilities:		
Accrued interest receivable	**303,528**	(695,909)
Prepaid and other assets	**159,858**	(435,843)
Accrued interest and other liabilities	**133,528**	(1,108,808)
Net cash from operating activities	**7,185,164**	3,033,312
Cash flows from investing activities		
Proceeds from principal payments on available-for-sale securities	**9,339,971**	18,554,700
Proceeds from sales and maturities of available-for-sale securities	**7,896,122**	1,854,871
Purchases of available-for-sale securities	**(38,164,631)**	(28,648,931)
Redemptions of stock in financial institutions	**(454,200)**	2,744,900
Net change in loans held for investment	**(64,450,033)**	(59,489,935)
Proceeeds from disposals of premises and equipment	**33,483**	-
Purchases of premises and equipment	**(207,359)**	(76,891)
Net cash from investing activities	**(86,006,648)**	(65,061,286)
Cash flows from financing activities		
Net change in deposits	**67,031,959**	66,853,165
Net change in escrows	**(66,370)**	12,910
Proceeds from Federal Home Loan Bank advances	**76,001,000**	176,000,000
Repayments of Federal Home Loan Bank advances	**(76,001,000)**	(197,000,000)
Proceeds from subordinated debt issuance, net of costs	**24,447,165**	-
Common stock repurchases	**(8,499,251)**	(710,606)
Dividends paid	**(577,296)**	(627,759)
Net cash from financing activities	**82,336,207**	44,527,710
Net change in cash and cash equivalents	**3,514,723**	(17,500,264)
Cash and cash equivalents, beginning of period	**11,986,201**	29,486,465
Cash and cash equivalents, end of period	**$ 15,500,924**	$ 11,986,201
Supplemental disclosures:		
Interest on deposits and borrowings paid	**$ 2,229,298**	$ 3,828,390
Income taxes paid	**$ 1,986,000**	$ 782,781
Loans transferred to loans held for sale	**$ 2,399,407**	$ 540,071
Operating lease assets recorded on ASU 2016-20 adoption	**$ -**	$ 1,138,139
Operating lease liabilities recorded on ASU 2016-20 adoption	**$ -**	$ 1,138,139

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

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Bancorp 34, Inc. ("Bancorp 34" or the "Company") is a Maryland corporation organized in 2016 to be the successor to Alamogordo Financial Corp ("AFC"), a savings and loan holding company, upon completion of the October 2016 second-step conversion of Bank 34 (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. Bancorp 34 owns 100% of the Bank.

In August 2020, Bancorp 34, Inc. voluntarily delisted from the NASDAQ Capital Market and joined the OTCQB Market. As a result of delisting, Bancorp 34, Inc. is no longer a public reporting company obligated to file periodic reports with the SEC, including proxy materials and reports on Forms 10-K, 10-Q and 8-K. The decision was based on numerous factors, including the significant cost savings of no longer filing periodic SEC reports and reductions in accounting fees, legal fees and other costs.

The Bank provides a variety of banking services to individuals and businesses through its full-service branches in Alamogordo and Las Cruces, New Mexico, and Scottsdale and Peoria, Arizona.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Consolidation – The Consolidated Financial Statements include the accounts of Bancorp 34 and the Bank. All significant intercompany accounts and transactions have been eliminated.

Reclassifications – Certain reclassifications have been made to prior period's financial information to conform to the current period presentation.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, allowance for loan losses, useful lives used in depreciation and amortization, deferred income taxes and related valuation allowance and core deposit intangibles.

Subsequent Events - Subsequent events have been evaluated through the date The Consolidated Financial Statements were issued.

Cash and Cash Equivalents – Cash and cash equivalents include cash, due from banks, and federal funds sold. Generally, the Company considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents. In monitoring credit risk associated with deposits in other banks, the Bank periodically evaluates the stability of the correspondent financial institutions. Banks are required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. No reserves were required at December 31, 2021 or December 31, 2020.

Available for Sale Securities – The Company reviews its financial position, liquidity, and future plans in evaluating the criteria for classifying securities. Available-for-sale securities consist of bonds, notes, debentures, mortgage-backed securities, collateralized mortgage obligations, municipal obligations and certain equity securities not classified as trading securities or as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of Shareholders' equity. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the expected life of the security.

Loans Held for Sale – Loans held for sale includes one- to four-family residential real estate loans, and periodically, a portion of Small Business Administration ("SBA") or United States Department of Agriculture (USDA) loans the Bank intends to sell. They are carried at fair value. Gains and losses on the sale of mortgage loans are recognized upon sale and are determined by the difference between the sales proceeds and carrying value of the loans. Net unrealized losses, if any, are recorded as a valuation allowance and charged to operations. There were no loans held for sale at December 31, 2021 or 2020.

Loans Held for Investment, Net – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific allowances and net of any deferred fees or costs. Loans are considered past due or delinquent based on the contractual terms in the loan agreement and how recently repayments have been received. Interest income is recognized based upon principal amounts outstanding. The accrual of interest is discontinued at the time the loan is 90 days past due or when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal, unless the credit is well secured and in process of collection. Interest previously accrued but uncollected on such loans is reversed and charged against current income. Subsequent interest collected on such loans is credited to loan principal if, in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as income and resumption of interest accruals may occur. Loans are charged-off as uncollectible when, in the opinion of management, collectability of principal is improbable. Personal loans are typically charged off when no later than 180 days past due.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio; credit concentrations; trends in historical loss experience; and specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on the current level of net loan losses, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and fifteen to forty years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

Stock in Financial Institutions - The Bank has investments in The Independent Bankers Bank (TIB), Pacific Coast Bankers' Bancshares (PCBB) and the Federal Home Loan Bank (FHLB) of Dallas. The Bank is a member of FHLB system. The Bank is required to maintain minimum levels of FHLB stock based on various factors, including the amount of borrowings outstanding, mortgage assets and the Bank's total assets. Financial institution stock is carried at cost, is classified as a restricted security and is periodically evaluated for impairment based on ultimate recovery. The carrying value of financial institution stocks at December 31, 2021 and 2020 was $1.8 million and $1.3 million, respectively. Cash and stock dividends are recorded in Other Income in the Consolidated Statement of Comprehensive Income.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Owned Life Insurance (BOLI) – The Bank holds BOLI representing life insurance on the lives of certain executives of the Bank purchased in order to help offset the costs of the Bank's benefit expenses. BOLI is carried on our consolidated balance sheets at the net cash surrender value of the policies and increases in the net cash surrender value are recorded in noninterest income in the consolidated statements of comprehensive income (loss) as bank owned life insurance income.

Core deposit intangible (CDI) – Core deposit intangible represents a premium paid to acquire core deposits representing the net present value of core deposits acquired over their book value on the acquisition date. The core deposit intangible is amortized using the double declining balance method over the 9-year estimated useful lives of the core deposits. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying value of the assets may be larger than the value of the future undiscounted cash flows.

Other Real Estate (ORE) – ORE consists of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are carried at fair value based on appraisal value less estimated sales costs. Loan losses arising from the acquisition of such properties are charged against the allowance for loan losses; any subsequent valuation adjustments are charged to expense, and the basis of the properties is reduced accordingly. These properties are not held for the production of income and, therefore, are not depreciated. Significant improvements expected to increase the resale value are capitalized and added to the value of the property.

Fair Value Measurements – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level fair value hierarchy prioritizes the inputs used to measure fair value:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government agency debt that is highly-liquid and is actively traded in over-the-counter markets.

- **Level 2** – Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Escrow Accounts – Funds collected from loan customers for insurance, real estate taxes and other purposes are maintained in escrow accounts and carried as a liability in the Consolidated Balance Sheets. These funds are periodically remitted to the appropriate entities to satisfy those claims.

Financial Instruments with Off-Balance-Sheet Risk – In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in The Consolidated Financial Statements when they are funded or related fees are incurred or received. The credit risk associated with these instruments is evaluated using the same methodology as for loans held for investment.

Advertising Cost – The Bank conducts direct and non-direct response advertising and purchases prospective customer lists from various sources. These costs are expensed as incurred. Advertising costs from continuing operations for the years ended December 31, 2021 and 2020 were $112,000 and $193,000, respectively.

Employee Stock Ownership Plan (ESOP) – The Bank sponsors an internally leveraged ESOP. The cost of shares issued to the ESOP but not yet released is shown as unearned employee stock ownership plan (ESOP) shares, an element of Shareholders' equity in our consolidated balance sheets. As shares are committed to be released, compensation expense is recorded equal to the market price of the shares, and the shares become outstanding for purposes of earnings per share calculations. To the extent that the fair value of ESOP shares committed differs from the cost of such shares, the difference is charged or credited to additional paid-in capital in Shareholders' equity.

Cash dividends on unallocated ESOP shares may be used to make payments on the ESOP loan and may be allocated to participant accounts in proportion to their account balances. Cash dividends paid on allocated shares are recorded as a reduction of retained earnings and, at the direction of the employer may be: a) credited directly to participant accounts in proportion to their account balances, or b) distributed directly to participants (outside the plan) in proportion to their account balances, or c) used to make payments on the ESOP loan requiring the release of shares with at least a similar fair market value be allocated to participant accounts. In addition, participants have the right to receive an immediate distribution of their vested cash dividends paid on shares of common stock credited to their accounts.

Other Stock-Based Compensation – The Company has stock-based compensation plans which provide for the award of various benefits to Directors and employees, including restricted stock and options to purchase stock. Each restricted stock award is separated into vesting tranches and compensation expense is recognized based on the fair value at the date of grant for each tranche on a straight-line basis over the vesting period reduced for estimated forfeitures. Cash dividends on unvested restricted shares are charged to compensation expense. The fair value of stock option awards granted is estimated using the Black-Scholes-Merton option pricing model using inputs including the option exercise price and risk free rate of return, and assumptions for expected dividend yield, expected stock price volatility and the expected life of the awards. The closing market price of the Company's stock on the date of grant is the exercise price for the stock options and the estimated fair value of the restricted stock awards. Expense is recognized over the required service period, defined as the vesting period. For awards with graded vesting, expense is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize expense net of actual forfeitures.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Accrued interest and penalties associated with uncertain tax positions are recognized as part of the income tax provision. The Company has no uncertain tax provisions.

Comprehensive Income (Loss) – Comprehensive income (loss) consists of net income (loss), net unrealized gains and losses on securities available-for-sale, net of taxes and unrecognized pension liability.

Earnings per Common Share - Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Maryland corporate law does not provide for treasury shares; therefore, shares repurchased are removed from issued and outstanding immediately and would not be considered outstanding. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements. The Company has restricted stock awards that participate in dividends ("participating securities"), and is required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period.

Summary of Recent Accounting Pronouncements:

Leases – In February 2016, the FASB issued ASU 2016-02 *"Leases (Topic 842)."* This standard requires entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard was effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018 for public companies, but the Company had until the first quarter of 2020 to adopt due to its emerging growth company status. The guidance is required to be applied by the modified retrospective transition approach. Early adoption is permitted. We adopted the standard effective January 1, 2020 on a prospective basis and elected to apply several allowable practical expedients, including carryover of historical lease determinations, classification conclusions and direct cost balances. Adoption of the standard resulted in balance sheet recognition of approximately \$1.1 million in operating lease right-of-use assets and \$1.1 million operating lease liabilities as of January 1, 2020. These amounts represent the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate at the date of adoption. There was no material impact on the timing of expense or income recognition in the consolidated statements of income. Prior periods were not restated. Further information regarding the Company's leasing activities are included in Note 7 – Financial Instruments with Off-Balance-Sheet Credit Risk.

NOTE 2 –SECURITIES

Available-for-sale and held-to-maturity securities have been classified in the consolidated balance sheets according to management's intent at December 31, 2021 and 2020. The amortized cost of such securities and their approximate fair values were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2021				
Available-for-sale securities				
Mortgage-backed securities	**$ 39,165,187**	**$ 468,883**	**$ (379,674)**	**$ 39,254,396**
U.S. Treasuries	**3,097,143**	**-**	**(45,775)**	**3,051,368**
U.S. Government agencies	**590,378**	**3,971**	**(1,501)**	**592,848**
Municipal obligations	**23,574,606**	**592,729**	**(132,568)**	**24,034,767**
Corporate debt	**1,000,000**	**-**	**(16,139)**	**983,861**
Total	**$ 67,427,314**	**$ 1,065,583**	**$ (575,657)**	**$ 67,917,240**

In August 2021, corporate debt with a fair market value of $6.2 million was transferred from available for sale to held to maturity. The difference between amortized cost and fair market value of those securities at transfer date will be amortized out of accumulated other comprehensive income over the 5-year period to first call date of those securities.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2021				
Held-to-maturity securities				
Corporate debt	**5,365,333**	**8,000**	**-**	**5,373,333**
Total	**$ 5,365,333**	**$ 8,000**	**$ -**	**$ 5,373,333**

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2020				
Available-for-sale securities				
Mortgage-backed securities	$ 25,852,963	$ 1,028,433	$ (2,045)	$ 26,879,351
U.S. Government agencies	816,937	5,725	(1,097)	821,565
Municipal obligations	23,546,166	1,296,941	(769)	24,842,338
Corporate debt	1,800,000	-	-	1,800,000
Total	$ 52,016,066	$ 2,331,099	$ (3,911)	$ 54,343,254

Gross proceeds from the sale of available-for-sale securities and resulting gains and losses in 2021 and 2020 were as follows:

	Years Ended December 31,	
	2021	2020
Proceeds from sale	**$ 4,626,122**	$ 1,854,871
Sales gains	**$ 202,324**	$ 15,013
Sales losses	**$ -**	$ (4,856)

Amortized cost and fair value of securities by contractual maturity as of December 31, 2021 and 2020 are shown below. For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the actual contractual maturities of underlying collateral. Expected maturities may differ from contractual maturities because borrowers may call or prepay obligations.

The scheduled maturities of available-for-sale securities at December 31, were as follows:

	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,741,658	$ 1,737,732	$ 2,978,393	$ 3,030,784
Due after one to five years	40,417,270	40,675,583	29,673,627	30,980,536
Due after five to ten years	20,512,698	20,714,773	13,379,347	14,244,927
Due after ten years	4,755,688	4,789,152	5,984,699	6,087,007
Totals	$ 67,427,314	$ 67,917,240	$ 52,016,066	$ 54,343,254

The scheduled maturities of held to maturity securities at December 31, were as follows:

	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one to five years	-	-	-	-
Due after five to ten years	5,365,333	5,373,333	-	-
Due after ten years	-	-	-	-
Totals	$ 5,365,333	$ 5,373,333	-	-

At December 31, 2021 and 2020, mortgage-backed securities included collateralized mortgage obligations of $22.8 million and $9.8 million, respectively, which are backed by single-family and commercial mortgage loans.

Gross Unrealized Losses and Fair Value – The following tables show the gross unrealized losses and fair values of securities by length of time that individual securities in each category have been in a continuous loss position.

Description of Securities	December 31, 2021 Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or More Fair Value	12 Months or More Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Available-for-sale securities:						
Mortgage-backed securities	**$ 18,409,871**	**$ (379,674)**	**$ -**	**$ -**	**$ 18,409,871**	**$ (379,674)**
U.S. Treasuries	**3,051,368**	**(45,775)**	**-**	**-**	**3,051,368**	**(45,775)**
U.S. Government agencies	**315,421**	**(1,501)**	**-**	**-**	**315,421**	**(1,501)**
Municipal obligations	**8,653,204**	**(132,568)**	**-**	**-**	**8,653,204**	**(132,568)**
Corporate debt	**983,861**	**(16,139)**	**-**	**-**	**983,861**	**(16,139)**
Total temporarily impaired securities	**$ 31,413,725**	**$ (575,657)**	**$ -**	**$ -**	**$ 31,413,725**	**$ (575,657)**

Description of Securities	December 31, 2020 Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or More Fair Value	12 Months or More Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Available-for-sale securities:						
Mortgage-backed securities	$ 1,133,125	$ (2,045)	$ -	$ -	$ 1,133,125	$ (2,045)
U.S. Government agencies	424,680	(830)	210,371	(267)	635,051	(1,097)
Municipal obligations	1,789,908	(769)	-	-	1,789,908	(769)
Total temporarily impaired securities	$ 3,347,713	$ (3,644)	$ 210,371	$ (267)	$ 3,558,084	$ (3,911)

At December 31, 2021 and 2020, all of the government agencies and mortgage-backed securities held by the Company were issued by U.S. Government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2021.

At December 31, 2021, loans and securities carried at approximately $183.8 million were pledged to secure FHLB advances and securities carried at approximately $5.5 million and $4.4 million were pledged to secure public deposits and FRB borrowings, respectively.

NOTE 3 – LOANS HELD FOR INVESTMENT, NET

The components of loans held for investment, net in the consolidated balance sheets were as follows:

	December 31, 2021	December 31, 2020
Loans held for investment, net:		
Commercial real estate	**$ 353,164,676**	$ 268,121,092
One- to four-family		
residential real estate		
residential real estate	**15,075,077**	22,463,037
Commercial and industrial	**45,661,804**	61,326,222
Consumer and other	**3,125,562**	2,716,760
Total gross loans	**417,027,119**	354,627,111
Unamortized loan fees	**(1,403,367)**	(1,061,576)
Loans held for investment	**415,623,752**	353,565,535
Allowance for loan losses	**(5,328,474)**	(4,820,883)
Loans held for investment, net	**$ 410,295,278**	$ 348,744,652

At December 31, 2021 and 2020 commercial real estate loans include construction loans of $31.4 million and $20.1 million, respectively.

The spread of the coronavirus caused us to modify business practices. The following includes information on two of our responses to COVID-19, and the effects of the pandemic on our business.

- At December 31, 2021 and 2020 commercial and industrial loans included $1.6 million and $27.1 million of Paycheck Protection Program (PPP) loans respectively, all of which were fully guaranteed by the Small Business Administration.

- The Company handled loan payment modification requests on a case-by-case basis considering the effects of the COVID-19 pandemic, related economic slow-down and stay-at-home orders on our customer and their current and projected cash flows through the term of the loan. At December 31, 2020 portfolio loans included seven modified loans with principal balances totaling $9.0 million, representing 3% of total non-PPP loan balances. There were no remaining COVID-19 related loan modifications at December 31, 2021.

Allowance for Loan Losses and Recorded Investment in Loans – The following is a summary of the allowance for loan losses and recorded investment in loans as of December 31:

	As of December 31, 2021				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses					
Ending balance: individually evaluated for impairment	**$ -**	**$ -**	**$ 210,457**	**$ -**	**$ 210,457**
Ending balance: collectively evaluated for impairment	**4,466,347**	**190,180**	**436,560**	**24,930**	**5,118,017**
Total	**$ 4,466,347**	**$ 190,180**	**$ 647,017**	**$ 24,930**	**$ 5,328,474**
Gross loans					
Ending balance: individually evaluated for impairment	**$ -**	**$ 161,953**	**$ 4,240,408**	**$ -**	**$ 4,402,361**
Ending balance: collectively evaluated for impairment	**353,164,676**	**14,913,124**	**41,421,396**	**3,125,562**	**412,624,758**
Total	**$ 353,164,676**	**$ 15,075,077**	**$ 45,661,804**	**$ 3,125,562**	**$ 417,027,119**

	As of December 31, 2020				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses					
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	4,051,438	299,007	426,409	44,029	4,820,883
Total	$ 4,051,438	$ 299,007	$ 426,409	$ 44,029	$ 4,820,883
Gross loans					
Ending balance: individually evaluated for impairment	$ 2,442,002	$ 279,063	$ -	$ -	$ 2,721,065
Ending balance: collectively evaluated for impairment	265,679,090	22,183,974	61,326,222	2,716,760	351,906,046
Total	$ 268,121,092	$ 22,463,037	$ 61,326,222	$ 2,716,760	$ 354,627,111

The following is a summary of activities for the allowance for loan losses for the years ended December 31, 2021 and 2020:

	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Balance December 31, 2020	**$ 4,051,438**	**$ 299,007**	**$ 426,409**	**$ 44,029**	**$ 4,820,883**
Provision for loan losses	**414,909**	**(116,418)**	**220,608**	**(19,099)**	**500,000**
Charge-offs	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**7,591**	**-**	**-**	**7,591**
Net (charge-offs) recoveries	**-**	**7,591**	**-**	**-**	**7,591**
Balance December 31, 2021	**$ 4,466,347**	**$ 190,180**	**$ 647,017**	**$ 24,930**	**$ 5,328,474**
Balance December 31, 2019	$ 2,588,714	$ 187,345	$ 115,502	$ 30,370	$ 2,921,931
Provision for loan losses	1,462,724	156,710	310,907	13,659	1,944,000
Charge-offs	-	(53,254)	-	-	(53,254)
Recoveries	-	8,206	-	-	8,206
Net (charge-offs) recoveries	-	(45,048)	-	-	(45,048)
Balance December 31, 2020	$ 4,051,438	$ 299,007	$ 426,409	$ 44,029	$ 4,820,883

Nonperforming Assets – The following tables present an aging analysis of the recorded investment of past due loans as of December 31, 2021 and 2020. Payment activity is reviewed by management on a monthly basis to determine the performance of each loan. Per Company policy, loans past due 90 days or more no longer accrue interest.

	Past Due					Total
	30 - 59 Days	60 - 89 Days	90 Days or More	Total	Current	Financing Receivables
December 31, 2021						
Commercial real estate	**$ 2,192,180**	**$ -**	**$ -**	**$ 2,192,180**	**$ 350,972,496**	**$ 353,164,676**
One- to four-family residential real estate	**94,822**	**653,089**	**143,540**	**891,451**	**14,183,626**	**15,075,077**
Commercial and industrial	**-**	**-**	**-**	**-**	**45,661,804**	**45,661,804**
Consumer and other	**11,697**	**-**	**-**	**11,697**	**3,113,865**	**3,125,562**
Totals	**$ 2,298,699**	**$ 653,089**	**$ 143,540**	**$ 3,095,328**	**$ 413,931,791**	**$ 417,027,119**
December 31, 2020						
Commercial real estate	$ -	$ -	$ -	$ -	$ (5,328,474)	$ (5,328,474)
One- to four-family residential real estate	15,230	286,180	96,350	397,760	(397,760)	-
Commercial and industrial	-	-	-	-	-	-
Consumer and other	-	-	-	-	410,295,278	410,295,278
Totals	$ 15,230	$ 286,180	$ 96,350	$ 397,760	$ 404,569,044	$ 404,966,804
Consumer and other	-	-	-	-	3,860,991	$ 3,860,991
Totals	$ 15,230	$ 286,180	$ 96,350	$ 397,760	$ 408,430,035	$ 408,827,795

The following table sets forth nonaccrual loans and other real estate at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Nonaccrual loans		
Commercial real estate	**$ -**	$ 2,442,002
One- to four-family residential real estate	**97,724**	211,319
Commercial and industrial	**4,240,408**	-
Consumer and other	**-**	-
Total nonaccrual loans	**4,338,132**	2,653,321
Other real estate (ORE)	**-**	-
Total nonperforming assets	**$ 4,338,132**	$ 2,653,321

Nonaccrual loan balances guaranteed by the SBA are $0.1 million, or 3%, and $2.3 million, or 87%, of the nonaccrual loan balances at December 31, 2021 and December 31, 2020, respectively.

Credit Quality Indicators – The following table represents the credit exposure by internally assigned grades at December 31, 2021 and 2020. This grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements in accordance with the loan terms. The Bank's internal credit risk grading system is based on management's experiences with similarly graded loans. Credit risk grades are reassessed each quarter based on any recent developments potentially impacting the creditworthiness of the borrower, as well as other external statistics and factors, which may affect the risk characteristics of the respective loan.

	As of December 31, 2021				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Grade					
Pass	**$ 350,965,154**	**$ 14,651,518**	**$ 41,317,959**	**$ 3,125,562**	**$ 410,060,193**
Special mention	**1,865,670**	**325,835**	**-**	**-**	**2,191,505**
Substandard	**333,852**	**97,724**	**4,343,845**	**-**	**4,775,421**
Doubtful	**-**	**-**	**-**	**-**	**-**
Loss	**-**	**-**	**-**	**-**	**-**
Totals	**$ 353,164,676**	**$ 15,075,077**	**$ 45,661,804**	**$ 3,125,562**	**$ 417,027,119**

	As of December 31, 2020				
	Commercial Real Estate	One- to Four-Family Residential Real Estate	Commercial and Industrial	Consumer and Other	Total
Grade					
Pass	$ 262,638,648	$ 21,093,219	$ 59,978,982	$ 2,716,760	$ 346,427,609
Special mention	1,555,127	573,370	1,137,001	-	3,265,498
Substandard	3,927,317	796,448	210,239	-	4,934,004
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Totals	$ 268,121,092	$ 22,463,037	$ 61,326,222	$ 2,716,760	$ 354,627,111

The Bank's internally assigned grades are as follows:

Pass – Strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – Potential weaknesses that deserve management's close attention. Borrower and guarantor's capacity to meet all financial obligations is marginally adequate or deteriorating.

Substandard – Inadequately protected by the paying capacity of the Borrower and/or collateral pledged. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful – All the weakness inherent in one classified as substandard with the added characteristic that those weaknesses in place make the collection or liquidation in full, on the basis of current conditions, highly questionable and improbable.

Loss – Considered uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. In fact, a certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

Impaired Loans – The following tables include the recorded investment and unpaid principal balances, net of charge-offs for impaired loans with the associated allowance amount, if applicable. Management determined the allocated allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the allocated allowance recorded.

	As of December 31, 2021			
	Recorded Investment	Principal Net of Charge-offs	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate	$ -	$ -	$ -	$ -
One- to four-family residential real estate	161,953	161,953	-	162,288
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 161,953	$ 161,953	$ -	$ 162,288
With an allowance recorded:				
Commercial and industrial	$ 4,240,408	$ 4,240,408	$ 210,457	$ 4,318,764
Total:				
Commercial real estate	$ -	$ -	$ -	$ 4,318,764
One- to four-family residential real estate	161,953	161,953	-	162,288
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 161,953	$ 161,953	$ -	$ 4,481,052

	As of December 31, 2020			
	Recorded Investment	Principal Net of Charge-offs	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate	$ 2,442,002	$ 2,442,002	$ -	$ 2,476,009
One- to four-family residential real estate	279,063	279,063	-	282,181
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 2,721,065	$ 2,721,065	$ -	$ 2,758,190
With an allowance recorded:	$ -	$ -	$ -	$ -
Total:				
Commercial real estate	$ 2,442,002	$ 2,442,002	$ -	$ 2,476,009
One- to four-family residential real estate	279,063	279,063	-	282,181
Commercial and industrial	-	-	-	-
Consumer and other	-	-	-	-
	$ 2,721,065	$ 2,721,065	$ -	$ 2,758,190

Certain loans within the Company's loan and ORE portfolios are guaranteed by the Veterans Administration (VA). In the event of default by the borrower, the VA can elect to pay the guaranteed amount or take possession of the property. If the VA takes possession of the property, the Company is entitled to be reimbursed for the outstanding principal balance, accrued interest and certain other expenses. There were no commitments from the VA to take title to foreclosed VA properties at December 31, 2021 and 2020.

Troubled Debt Restructurings – Restructured loans are considered "troubled debt restructurings" if due to the borrower's financial difficulties, the Bank has granted a concession that they would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates, or a combination of the two. All troubled debt restructurings placed on nonaccrual status must show no less than six months of repayment performance by the borrower in accordance with contractual terms to return to accrual status. Once a loan has been identified as a troubled debt restructuring, it will continue to be reported as such until the loan is paid in full.

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a troubled debt restructuring. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, an analysis of the causes of the borrower's decline in performance, and projections intended to assess repayment ability going forward.

There was one troubled debt restructuring with a principal balance of less than $65,000 as of December 31, 2021 and one troubled debt restructuring with a principal balance of less than $75,000 as of December 31, 2020.

NOTE 4 – PREMISES AND EQUIPMENT, NET

Components of premises and equipment, net included in the consolidated balance sheets at December 31, were as follows:

	2021	2020
Cost:		
Land and improvements	**$ 2,241,240**	$ 2,281,240
Building and improvements	**12,146,074**	12,079,605
Furniture and equipment	**1,993,650**	1,852,760
Automobiles	**-**	91,387
Total cost	**16,380,964**	16,304,992
Accumulated depreciation and amortization	**(8,414,560)**	(8,000,560)
Net book value	**$ 7,966,404**	$ 8,304,432

Depreciation and amortization expense was $472,000 and $522,000 for the years ended December 31, 2021 and 2020, respectively. Fixed asset impairment expenses of $40,000 and $241,000 were reported in 2021 and 2020, respectively. The impairments brought the carrying value of remote ATM properties held for sale at each year end to estimated market value less cost to sell.

NOTE 5 – TIME DEPOSITS

Following are maturities of time deposits at December 31, 2021 and 2020:

	At December 31,	
Maturity	2021	2020
One year or less	**$ 40,180,629**	$ 49,458,925
Over one through three years	**12,891,584**	21,367,838
Over three through five years	**1,476,647**	3,652,347
	$ 54,548,860	$ 74,479,109

At December 31, 2021 and 2020, the Bank had $13.0 million and $17.6 million, respectively, in time deposits of $250,000 or more. At December 31, 2021 and 2020, $10.9 million and $12.6 million, respectively, of such time deposits mature within one year.

Interest expense on time deposits in denominations of $250,000 or more amounted to $83,000 and $227,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 6 – BORROWINGS

The Bank has established a borrowing line with the FHLB of Dallas. As of December 31, 2021 and 2020, the Bank had outstanding advances totaling $19.0 million carrying interest rates from 0.14% to 1.40%, and maturing between 2022 and 2023. As of December 31, 2021, the Bank had unused credit available under the FHLB blanket pledge agreement of $163.0 million.

On June 29, 2021, the company completed a private placement of $25.0 million of 10 year, fixed-to-floating rate subordinated notes. The subordinated notes will initially bear interest at 4.00% per annum for five years, floating at Three-Month SOFR plus 328 basis points quarterly thereafter. The ten-year notes mature on July 15, 2031, and are be callable at the Company's option after five years. The subordinated notes is presented net of remaining loan fees of $552,835 at December 31, 2021.

The following are maturities of outstanding borrowings:

Maturity	At December 31, 2021
Year one	**$14,000,000**
Year two	**5,000,000**
Year three	**-**
Year four	**-**
Year five	**-**
Six to ten years	**25,000,000**
Total borrowings	**$44,000,000**

The Bank had two lines of credit available with other financial institutions of $9.8 and $10.0 million with no outstanding balances at December 31, 2021 and 9.8 and $6.0 million with no outstanding balances at December 31, 2020.

NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amounts represent off-balance-sheet credit risk are as follows as of December 31:

	2021
Commitments to extend credit	**$ 39,806,545**
Unused lines of credit	**18,672,349**
Totals	**$ 58,478,894**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation 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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies by and may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 8– LEASES

The Bank has noncancelable operating leases that expire over the next three years that require the payment of base lease amounts and executory costs such as taxes, maintenance and insurance. Rental expense for leases was $578,000 and $613,000 for the years ended December 31, 2021 and 2020, respectively.

Approximate future minimum rental commitments under noncancelable leases are:

Year		December 31, 2021 Operating Leases
2022	$	442,706
2023		30,555
Total minimum lease payments	$	473,261
Amounts representing interest (present value discount)		(4,868)
Operating lease liabilities (present value of minimum lease payments)	$	468,393
Weighted average remaining term (in years)		1.0
Weighted average discount rate		1.80%

NOTE 9 – EMPLOYEE RETIREMENT BENEFIT PLANS

Profit Sharing Plan – The Company has established a profit-sharing 401(k) type salary reduction plan (Plan) for all employees that meet the necessary eligibility requirements and participants are fully vested after six years of service. For Company matching contributions made for plan years prior to 2014, annual Company contributions were at the discretion of the Board of Directors. From 2014 through 2019, the Company adopted a Safe Harbor matching contribution provision, whereby it agreed to match 100% of participant's contributions up to the first 3% of salary and 50% of the next 2%, for a total maximum Company matching contribution of 4% of participant salary, as defined by the Plan. The Safe Harbor matching contribution was guaranteed. The Company elected not to adopt a safe harbor matching contribution for 2021 or 2022.

Profit sharing plan expense was $211,000 and $178,000 for the years ended December 31, 2021 and 2020, respectively.

Employee Stock Ownership Plan – The ESOP covers substantially all employees that meet certain age and service requirements. Under the plan, annual retirement expense is generally defined as a percentage of employee compensation, net of forfeitures from employees who have terminated employment.

In October 2016, the ESOP borrowed $1.5 million from the Company to purchase 150,358 shares of common stock from the Company at $10 per share. Bancorp 34 accepted a $1.8 million note from the ESOP secured by all unallocated shares in the plan with a 30-year repayment term. The principal balance includes $1.5 million used to purchase stock in 2016 and $266,000 used to pay off already outstanding ESOP loans used to purchase shares in 2012 and 2014. Principal and interest payments on the note are made every December 31 and the interest rate on the loan adjusts annually on January 1st to the prime rate of interest as published in the Wall Street Journal. The Bank makes at least annual discretionary contributions to the ESOP and the ESOP uses all funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation for that plan year. At the discretion of the employer, participants may receive the shares, cash, or a combination of stock and cash at the end of employment.

Since the Bank is the primary source of repayment on ESOP loans, the Bank records the note payable and an equal contra-equity account on its balance sheet and interest expense and ESOP benefit plan expense on its statement of comprehensive income equal to the annual loan payments. As inter-company borrowings, all bank-recorded balance sheet items, Bancorp 34 interest income and Bank 34 interest expense on the ESOP loan are eliminated in consolidation. Bancorp 34 consolidated financial statements include a contra-equity account with a balance equal to the purchase price of all unallocated shares in the ESOP.

Shares held by the ESOP at December 31, 2021 and 2020 were as follows:

	At December 31,	
	2021	**2020**
Allocated and committed to be allocated to participants	**40,764**	40,247
Unallocated/unearned	**151,666**	157,613
Total ESOP shares	**192,430**	197,860
Fair value of unallocated/unearned shares	**$2,089,957**	$1,826,735

ESOP expense was $74,000 and $71,000 for the years ended December 31, 2021 and 2020, respectively.

DEFINED BENEFIT PLAN - Defined benefit pension plan expense for the years ended December 31, 2021 and 2020 was $2,229,000 and $184,000, respectively. At December 32, 2021 a plan was in place to terminate the defined benefit pension plan and estimated termination funding and related costs of $2,167,000 are included in 2021 defined benefit pension plan expense.

Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan")

Through March 31, 2020, the Company was a participant in the Pentegra DB Plan, a multiple employer defined benefit pension plan. On June 1, 2006, the Company froze the benefits available under the Pentegra DB Plan. The Company's cash contributions to the Pentegra DB Plan were $0 and $225,000 during the years ended December 31, 2020 and 2019, respectively, all of which represented less than 5% of total plan contributions.

Bank 34 Employees DB Retirement Plan

Effective April 1, 2020, the Company withdrew from the Pentegra DB Plan and established the Bank 34 Employee Defined Benefit Retirement Plan ("Bank DB Plan"). On June 2, 2020, all assets and liabilities were transferred from the Pentegra DB Plan to the newly established Bank DB Plan. The Bank DB Plan is a funded noncontributory defined benefit pension plan covering 49 current and former employees. Similar to its predecessor plan, benefits available under the Bank DB Plan are frozen. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for this plan. The initial plan year was April 1, 2020 through December 31, 2020. The fair value of plan assets and accumulated benefit obligation on the April 1, 2020 Bank DB Plan adoption date were $2,392,111 and $3,951,473, respectively. Accumulated other comprehensive income at December 31, 2020, included $1,346,355 which represented $1,807,189 prior service cost related to this plan net of $460,834 estimated tax benefits.
The Bank DB Plan was first funded in the second quarter of 2020 and the overall investment strategy and target investment allocations were determined in November 2020. The 2.50% weighted average expected long term rate of return is estimated based on current trends in similar plan assets as well as projected future rates of returns on similar assets. The plan does not have prohibited investments. Pension benefit obligations for 2021 and 2020 were measured based upon discount rates of 2.75% and 2.50%, respectively.

From initial funding in the second quarter of 2020 through October 2020, all assets of the Bank DB Plan were invested in the MassMutual Premier U.S. Gov't Money Market Fund ("Fund"). As of December 31, 2021 and 2021, all assets of the Bank DB Plan were invested in a mix of bond funds specifically chosen to match durations to the projected cash payments to participants in the future. Those funds included: Western Select Strategic Bond Fund, Select MetWest Total Return Bond Fund, Barings Long Duration Bond Fund, PIMCO Extended Duration Bond Fund and Vanguard Short Term Bond Index Fund.

At December 31, 2021, the fair value of Bank DB Plan assets was $893,662, determined by significant observable inputs (Level 2), representing 84% of the $1,062,505 accumulated benefit obligation. The defined obligation at December 31, 2021 of $163,000 is included in Accrued Interest and Other Liabilities on the Consolidated Balance Sheet. Contributions to the Bank 34 DB Plan in 2021 and 2020 totaled $0 and $2,137,186, respectively.

Deferred Compensation and Directors Fee Plans – A deferred compensation plan covers all senior officers and a deferred directors fee plan covers all directors. Under these plans, the company pays each participant that elects to defer, or their beneficiary, the amount deferred plus interest over a pre-selected period up to 10 years, beginning with the participant's termination of service. A liability is accrued monthly for the deferred amount plus interest earned. The interest rate on deferred balances is determined annually on January 1st at the greater of Wall Street Journal Prime or 5%, and was 5.0% for the years ended December 31, 2021 and 2020. Interest expense for the deferred plans was $95,000 and $86,000, for the years ended December 31, 2021 and 2020, respectively. Deferred plan liabilities, included in accrued interest and other liabilities on the balance sheet, were $1.9 million and $1.8 million, as of December 31, 2021 and 2020, respectively.

NOTE 10 – BOARD OF DIRECTORS' RETIREMENT POLICY

The Bank entered into director retirement agreements with three current Board members, which were amended in 2013. Each agreement provides for a normal retirement benefit equal to each director's accrual balance of $74,238 amortized with interest and payable upon the later of the director's normal retirement date (age 70) or his separation from service, in monthly installments over a 15-year period. The director's account balance is payable to the director or the director's beneficiary under certain circumstances as set forth in the director's individual agreement. In 2021 the three current Board members were paid the accrued balance in their accounts and at December 31, 2021 there is no remaining liability for those agreements.

The Board previously had a deferred compensation policy (Policy) to compensate Board members for their service to the Company. The retirement date for directors was the later of the last month in which they reached age 70 or completion of their term if they were elected to the Board during the annual meeting resulting in service beyond age 70. Upon retirement, Board members receive deferred compensation for the remainder of their life up to a maximum of $2,000 per month. Board members vested in the Policy based on service as follows: zero to four years of service (20%), five years of service (40%), six years of service (60%), seven years of service (80%) and eight years of service (100%). On September 21, 2011, the Board rescinded this retirement policy for current directors.

The total liability for the combined policies and agreements was $245,000 and $525,000 at December 31, 2021 and 2020, respectively.

NOTE 11 – INCOME TAXES

The provision for income taxes from continuing operations includes these components:

	Years Ended December 31,	
	2021	2020
Current		
Federal	**$ 1,184,422**	**$ 581,600**
State	**313,817**	**145,819**
Deferred expense	**(630,009)**	**(230,489)**
Provision for income taxes	**$ 868,230**	**$ 496,930**

Income tax expense from continuing operations differs from the amounts computed by applying the federal income tax rate of 21% in 2021 and 2020, to earnings before federal income tax expense. These differences are primarily caused by state income taxes, net of federal tax benefit, income that is not taxable for federal and state income tax purposes, expenses that are not deductible for tax purposes and tax adjustments related to prior federal income tax returns.

A reconciliation of income tax expense from continuing operations at the Federal statutory rate to the Company's actual income tax expense for all periods presented is shown below:

	Years Ended December 31,	
	2021	2020
Federal tax at the statutory rate (21%)	**$ 896,230**	$ 481,360
Benefit from permanent differences:		
State income taxes, net of Federal tax benefit	46,479	81,323
Bank-owned life insurance	(65,222)	(54,926)
Other, net	(9,256)	(10,827)
Provision for income taxes	**$ 868,230**	$ 496,930

The tax effects of temporary differences related to deferred taxes at December 31 were:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	**$ 1,313,603**	$ 1,224,614
Net operating loss carryforwards	**682,500**	735,000
Deferred compensation	**654,085**	713,432
Accrued bonus	**333,340**	269,570
Lease liability	**115,471**	262,352
Organizational costs	**8,536**	29,905
Other, net	**233,261**	283,966
Total deferred tax assets	**3,340,796**	3,518,839
Deferred tax liabilities:		
Unrealized gains on AFS securities	**(126,335)**	(591,159)
Loan origination costs	**(240,354)**	(325,038)
Right of use assets	**(104,929)**	(241,333)
Depreciation and amortization	**(99,909)**	(200,274)
FHLB stock dividends	**(26,383)**	(25,222)
Purchase accounting	-	(24,794)
Total deferred tax liabilities	**(597,910)**	(1,407,820)
Net deferred tax asset	**$ 2,742,886**	$ 2,111,019

A valuation allowance for deferred tax assets is recorded when it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, NOL carry-back potential, and tax planning strategies in making this assessment. Based upon the Company's assessment of all available evidence, management determined it was more-likely-than-not that the net deferred tax asset would be realized at December 31, 2021.

At December 31, 2021, the Company had federal operating loss carry-forwards of approximately $3.3 million, all of which are subject to Internal Revenue Code ("IRC") Section 382 limitations, which limit the annual use of acquired losses to $250,000 per year, and begin to expire in 2028. At December 31, 2021, the Company has recorded deferred tax assets of $683,000 related to the Federal net operating loss carry-forwards.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2021 and 2020, there were no material uncertain tax positions related to federal and state income tax matters. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company files consolidated U.S. federal and various state income/franchise tax returns. The Company is no longer subject to examination by U.S. federal taxing authorities for years before 2016 and is no longer subject to examination by state taxing authorities for years before 2015. Our federal and state tax returns have not been audited for the past seven years.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID- 19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Company.

NOTE 12 – REGULATORY MATTERS

Bank 34 is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and 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 involving 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets. Management believes, as of December 31, 2021 and 2020, the Bank meets all capital adequacy requirements to which it is subject.

Banks are also subject to certain restrictions on the amount of dividends that they may declare without prior regulatory approval.

As of December 31, 2021, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank has to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events that management believes have changed the Bank's prompt corrective action category. The Bank has not opted into the Community Bank Leverage Ratio ("CBLR") and therefore is required to continue calculating and reporting risk-based capital ratios.

The Bank's actual and required capital amounts and ratios are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2021:						
Total Capital (to Risk-Weighted Assets)	**$ 61,742**	**14.08%**	**$ 35,081**	**8.00%**	**$ 43,851**	**10.00%**
Tier I Capital (to Risk-Weighted Assets)	**$ 56,414**	**12.86%**	**$ 26,321**	**6.00%**	**$ 35,094**	**8.00%**
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	**$ 56,414**	**12.86%**	**$ 19,741**	**4.50%**	**$ 28,514**	**6.50%**
Tier I Capital (to Average Assets)	**$ 56,414**	**10.90%**	**$ 23,978**	**4.00%**	**$ 29,973**	**5.00%**
As of December 31, 2020:						
Total Capital (to Risk-Weighted Assets)	$ 46,789	13.15%	$ 28,465	8.00%	$ 35,582	10.00%
Tier I Capital (to Risk-Weighted Assets)	$ 42,337	11.90%	$ 21,349	6.00%	$ 28,465	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$ 42,337	11.90%	$ 16,012	4.50%	$ 23,128	6.50%
Tier I Capital (to Average Assets)	$ 42,337	9.41%	$ 17,995	4.00%	$ 22,494	5.00%

NOTE 13 – RELATED PARTY TRANSACTIONS

The Bank periodically enters into transactions with its executive officers, directors, significant Shareholders, and their affiliates (related parties). Transactions with such related parties in 2021 and 2020 included:

	Years Ended December 31,	
	2021	2020
Fees and bonuses paid to directors during the period	**$ 254,920**	$ 227,755
Consulting fees paid to directors during the period	**$ -**	$ 30,000
Deposits from related parties held by the Bank at end of period	**$ 4,284,337**	$ 2,381,064

There were no loans to such related parties in 2021 or 2020.

NOTE 14 – STOCK-BASED COMPENSATION

Stock-based expense for the years ended December 31, 2021 and 2020, included in Salaries and Benefits in our Consolidated Statements of Comprehensive Income, was $278,000 and $316,000, respectively.

The Company accounts for forfeitures when they occur by reversing any previously accrued compensation expense on forfeited options in accordance with ASC 718 Compensation – Stock Compensation.

On November 17, 2017 the Shareholders approved the adoption of the 2017 Equity Incentive Plan ("Incentive Plan"). The Incentive Plan provides for the grant of a maximum of 263,127 shares of the Company's common stock of which up to 187,948 shares of common stock may be granted for stock options and 75,179 shares of common stock may be issued as restricted stock to Directors and employees of the Company. Stock options and restricted stock awards under the Incentive Plan vest at 20% per year beginning on the first anniversary of date of grant and have a maximum term of seven years.

The stock option plan allows for net settlement of vested options. In a net settlement, the Company, at the direction of the optionee, net settles the options by issuing new shares to the optionee with a value, at the current per share trading price, equal to the total in-the-money or intrinsic value of the options less any necessary tax withholdings on the disqualifying disposition of Incentive Stock Options. The optionee is granted newly issued shares and a small amount of cash in lieu of partial shares. There were no net settlements in 2021 and 2020.

In 2020, 30,000 stock options were granted and 2,000 shares of restricted stock were issued. The average grant-date fair value of stock option awards granted in 2020 was $3.32. In 2021, 6,500 stock options and 2,500 shares of restricted stock were issued. Stock option grant-date fair values for 2021 and 2020 were computed using the Black Scholes Merton options pricing model with the following weighted average inputs and assumptions:

	Years Ended December 31,	
	2021	2020
Grant date stock price and exercise price	**$12.19**	$10.20
Dividend yield	**1.64%**	1.97%
Expected volatility	**33.89%**	41.93%
Risk-free interest Rate	**0.96%**	0.43%
Expected life in years	**6**	6

Historical data is used to estimate expected volatility and the term of options expected to be outstanding and takes into account that options are not transferable. The risk-free interest rate is based on the U.S. Treasury yield curve for the expected term in effect at the date of grant.

A summary of stock option activity is presented below:

	For the Year Ended December 31, 2021			
	Shares	**Weighted-Average Exercise Price**	**Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Outstanding, December 31, 2020	**173,750**	**$ 14.10**	**4.4**	**$**
Granted	**6,500**	**12.19**		
Exercised	**-**			
Forfeited or expired	**(16,650)**	**14.90**		
Outstanding, December 31, 2021	**163,600**	**$ 13.94**	**3.6**	**$ -**
Exercisable, December 31, 2021	**109,120**	**$ 14.65**	**3.1**	**$ -**

Information related to stock options granted during each year is as follows:

	Years Ended December 31,	
	2021	2020
Intrinsic value of options exercised	**$ -**	$ -
Cash received from option exercises	**$ -**	$ -
Tax benefit from option exercises	**$ -**	$ -
Total weighted average fair value of options granted	**$ 22,117**	$ 99,550

A summary of restricted stock activity for the year ended December 31, 2021 is presented below:

	Shares		Weighted Average Grant Date Price	Average Remaining Contractual Term (years)
	For the Year Ended December 31, 2021			
Outstanding, December 31, 2020	**26,059**	**$**	**14.68**	**1.8**
Granted	**2,500**		**12.24**	
Forfeited	**(6,800)**		**14.90**	
Vested	**(8,985)**		**14.77**	
Outstanding, December 31, 2021	**12,774**	**$**	**14.02**	**2.0**

As of December 31, 2021, there was $183,000 and $160,000 of total unrecognized equity-based expense related to unvested stock options and restricted stock awards granted under the 2017 Equity Incentive Plan, respectively, that is expected to be recognized over the next 5 years as follows:

Year	Expense
2022	241,000
2023	36,000
2024	34,000
2025	26,000
2026	6,000
	343,000

NOTE 15– FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents information about assets and liabilities measured at fair value on a recurring and non-recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values as of December 31, 2021 and 2020.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
December 31, 2021:				
Recurring basis				
Mortgage-backed securities	$ -	$ 39,254,396	$ -	$ 39,254,396
U.S. Treasuries	-	3,051,368	-	3,051,368
U.S. Government agencies	-	592,848	-	592,848
Municipal obligations	-	24,034,767	-	24,034,767
Corporate debt	-	983,861	-	983,861
Nonrecurring basis				
Impaired loans	-	-	4,402,361	4,402,361
Totals	$ -	$ 67,917,240	$ 4,402,361	$ 72,319,601
December 31, 2020:				
Recurring basis				
Mortgage-backed securities	$ -	$ 26,879,351	$ -	$ 26,879,351
U.S. Government agencies	-	821,565	-	821,565
Municipal obligations	-	24,842,338	-	24,842,338
Corporate debt	-	1,800,000	-	1,800,000
Nonrecurring basis				
Impaired loans	-	-	2,721,065	2,721,065
Totals	$ -	$ 54,343,254	$ 2,721,065	$ 57,064,319

The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Bank does not know whether the fair values shown represent values at which the respective financial instruments could be sold individually or in the aggregate.

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2021 or 2020.

The following table presents the significant unobservable inputs used in the fair value measurements for Level 3 financial assets measured on a non-recurring basis:

	Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
At December 31, 2021				
Impaired loans				
Commercial and Industrial	**$ 4,240,408**	Appraisal	Appraisal discount and estimated selling costs	17-18%
One- to four-family residential real estate	**161,953**	Appraisal	Appraisal discount and estimated selling costs	17-18%
Total Impaired Loans	**$ 4,402,361**			
At December 31, 2020				
Impaired loans				
Commercial real estate	$ 2,442,002	Appraisal	Appraisal discount and estimated selling costs	17-18%
One- to four-family residential real estate	279,063	Appraisal	Appraisal discount and estimated selling costs	17-18%
Total Impaired Loans	$ 2,721,065			

The following tables present estimated fair values of the Company's financial instruments at December 31, 2021 and 2020.

	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
At December 31, 2021:					
Financial assets:					
Cash and due from banks	**$ 7,230,924**	**$ 7,230,924**	**$ 7,230,924**	**$ -**	**$ -**
Interest-bearing deposits with banks	**8,270,000**	**8,270,000**	**8,270,000**	**-**	**-**
Available-for-sale securities	**67,917,240**	**67,917,240**	**-**	**67,917,240**	**-**
Held to maturity securities	**5,365,333**	**5,373,333**	**-**	**5,373,333**	**-**
Loans held for investment, net	**410,295,278**	**413,964,000**	**-**	**-**	**413,964,000**
Stock in financial institutions	**1,785,861**	**1,785,861**	**-**	**1,785,861**	**-**
Financial liabilities:					
Demand deposits, savings and NOW deposits	**383,232,923**	**377,284,080**	**377,284,080**	**-**	**-**
Time deposits	**54,548,860**	**54,769,000**	**-**	**54,769,000**	**-**
Federal Home Loan Bank advances	**19,000,000**	**19,073,000**	**-**	**19,073,000**	**-**
Subordinated debt	**24,447,165**	**24,883,750**	**-**	**24,883,750**	**-**
At December 31, 2020:					
Financial assets:					
Cash and due from banks	$ 8,201,201	$ 8,201,201	$ 8,201,201	$ -	$ -
Interest-bearing deposits with banks	3,785,000	3,785,000	3,785,000	-	-
Available-for-sale securities	54,343,254	54,343,254	-	54,343,254	-
Loans held for investment, net	348,744,652	349,043,000	-	-	349,043,000
Stock in financial institutions	1,324,361	1,324,361	-	1,324,361	-
Financial liabilities:					
Demand deposits, savings and NOW deposits	296,270,715	295,046,736	295,046,736	-	-
Time deposits	74,479,109	74,955,000	-	74,955,000	-
Federal Home Loan Bank advances	19,000,000	19,187,000	-	19,187,000	-

NOTE 18 –EARNINGS PER SHARE

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	Year Ended December 31,	
	2021	2020
Basic:		
Net income	**$ 3,399,530**	$ 1,795,259
Less: Earnings allocated to participating securities	**(27,372)**	(23,520)
Net income allocated to common shareholders	**$ 3,372,158**	$ 1,771,739
Weighted-average common shares outstanding including participating securities	**2,889,138**	3,185,081
Less: Average participating securities	**(21,676)**	(39,660)
Less: Average unallocated ESOP Shares	**(151,929)**	(157,876)
Average shares	**2,715,533**	2,987,545
Basic earnings per common share	**$ 1.24**	$ 0.59
Diluted:		
Net income allocated to common shareholders	**$ 3,372,158**	$ 1,771,739
Weighted-average common shares outstanding for basic earnings per common share	**2,715,533**	2,987,545
Add: Dilutive effects of assumed exercises of stock options	**5,589**	3,755
Weighted average shares and dilutive potential common shares	**2,721,123**	2,991,300
Diluted earnings per common share	**$ 1.24**	$ 0.59

Participating securities are restricted stock awards since they participate in common stock dividends. Stock options for 127,000 and 149,000 shares of common stock were not considered in computing diluted earnings per common share for 2021 and 2020, because they were antidilutive.

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