CBMBancorp, Inc.

2021 ANNUAL REPORT

CBMBancorp, Inc.

To the Shareholders of CBM Bancorp, Inc.:

We are pleased to provide the Annual Report to Shareholders of CBM Bancorp, Inc., and its wholly owned subsidiary Chesapeake Bank of Maryland for the fiscal year ending December 31, 2021.

We believe that 2021 was a successful fiscal year for our Company and for you, our stockholders.

Our achievements during 2021 were only possible through the hard work of our dedicated employees. We are sincerely grateful to our employees and experienced management team and greatly appreciate their many contributions during a year of continued challenges, particularly from the ongoing COVID-19 pandemic.

Our 2021 results reflect the strength of our operating model and our balance sheet. Our asset quality metrics and level of tangible capital continue to exceed industry standards. The Company ended the 2021 fiscal year with total assets of $249,500,000 representing an increase of 6% from the previous year. The Company's net loans total $148,400,000 at December 31, 2021, virtually unchanged from the previous year end total. We are pleased to report that the Company recorded consolidated net income for the fiscal year of $1,185,000, representing an increase of 26% from the previous year. In addition, we were pleased to declare and pay our stockholders two special dividends, each in the amount of $0.50, during the 2021 fiscal year.

On behalf of our entire organization, we would like to thank our customers and the communities we serve for continuing to honor us with their business. We know they have many banking options, and we appreciate them for choosing us.

Finally, as we hope that most of you are aware, on January 28, 2022, we announced the proposed merger of CBM Bancorp, Inc. and its subsidiary, Chesapeake Bank of Maryland, with Rosedale Federal Savings and Loan Association. Under the terms of the agreement, stockholders of CBM Bancorp, Inc. will be entitled to receive $17.75 in cash for each share of our Company's common stock they own. A special stockholder meeting is expected to be held in June, for the purpose of considering and approving the proposed merger agreement.

On behalf of the Board of Directors and our employees, thank you for the confidence you have demonstrated through your investment in our Company and your continued support.

Sincerely,

William J. Bocek, Jr.

Joseph M Solomon

William J. Bocek, Jr.
Chairman of the Board

Joseph M. Solomon
President

Financial Highlights

As of and for the years ended December 31,
(dollars in thousands, except ratios and per common share data)

	2021	2020	2019	2018
Selected Financial Condition Data ($):				
Total assets	$ 249,469	$ 234,804	$ 220,402	$ 215,413
Cash and cash equivalents	70,799	47,608	5,987	18,847
Time deposits in other banks	4,712	6,478	7,936	6,944
Investment securities	19,063	16,544	37,091	37,447
Loans, net of unearned fees	150,026	150,306	159,625	143,509
Allowance for loan losses	1,585	1,727	1,379	1,188
Foreclosed real estate	-	775	845	865
Deposits	193,815	174,780	156,441	153,750
Borrowings	5,000	5,000	2,500	-
Stockholders' equity	49,803	53,563	59,935	60,347
Selected Earnings Data ($):				
Net interest income	$ 6,635	$ 7,286	$ 7,635	$ 6,724
Provision for (reversal of) loan losses	(150)	350	175	575
Non-interest income	1,918	1,574	592	581
Non-interest expense	7,316	7,148	6,776	5,834
Net income	1,185	943	908	673
Performance Ratios (%):				
Return on average assets	0.48%	0.41%	0.42%	0.35%
Return on average equity	2.35%	1.72%	1.50%	2.10%
Net interest spread	2.58%	3.05%	3.33%	3.49%
Net interest margin	2.83%	3.33%	3.68%	3.67%
Common Share Data ($):				
Basic earnings per share	$ 0.36	$ 0.26	$ 0.23	$ 0.17
Dividends paid per share	1.00	0.50	-	-
Book value per share (end of period)	14.14	14.51	14.24	14.26
Shares outstanding (end of period)	3,521,814	3,690,633	4,208,505	4,232,000
Ratios (%):				
Loans to deposits	77.41%	86.00%	102.04%	93.32%
Allowance for loan losses to total loans	1.06%	1.15%	0.86%	0.83%
Non-performing loans to total loans	0.18%	0.12%	0.31%	0.86%
Non-performing assets to total assets	0.11%	0.41%	0.61%	0.98%
Total risk-based capital	35.46%	29.53%	28.68%	30.58%
Tier 1 capital to average assets	18.74%	18.66%	19.08%	18.45%
Average equity to average assets	20.34%	23.34%	27.67%	16.69%

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Stockholders and the Board of Directors
CBM Bancorp, Inc.

Opinion
We have audited the financial statements of CBM Bancorp, Inc. (the “Company”) which comprises of the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related statements of consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 Company’s ability to continue as a going concern for within one year after the date the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Company'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 company's ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Letter to Stockholders and Financial Highlights as of and for the years ended December 31, 2021, 2020, 2019 and 2018 but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Dixon Hughes Goodman LLP

Richmond, VA
March 16, 2022

CBM Bancorp, Inc.
Consolidated Statements of Financial Condition
December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks	$ 720,947	$ 799,120
Interest-bearing deposits in other banks	70,078,381	46,808,842
Cash and cash equivalents	70,799,328	47,607,962
Time deposits in other banks	4,711,896	6,477,853
Securities available for sale, at fair value	19,062,914	16,543,524
Federal Home Loan Bank stock, at cost	329,900	410,900
Loans held for sale	-	6,073,782
Loans, net of unearned fees	150,026,123	150,305,998
Allowance for loan losses	(1,584,828)	(1,727,216)
Net loans	148,441,295	148,578,782
Accrued interest receivable	525,572	605,333
Bank-owned life insurance	2,511,331	4,831,457
Premises and equipment, net	1,631,341	1,753,608
Foreclosed real estate	-	775,000
Deferred income taxes	569,493	856,005
Prepaid expenses and other assets	886,094	319,397
Total assets	$ 249,469,164	$ 234,803,603
Liabilities and Stockholders' Equity		
Liabilities		
Noninterest-bearing deposits	$ 36,799,290	$ 32,650,939
Interest-bearing deposits	157,016,093	142,129,183
Total deposits	193,815,383	174,780,122
Advances by borrowers for taxes and insurance	383,011	431,089
Federal Home Loan Bank advances	5,000,000	5,000,000
Accounts payable and other liabilities	468,078	1,029,677
Total liabilities	199,666,472	181,240,888
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value; authorized 1,000,000 shares; none issued	-	-
Common stock, $0.01 par value; authorized 24,000,000 shares; issued and outstanding 3,521,814 shares at December 31, 2021 and 3,690,633 shares at December 31, 2020	35,218	36,906
Additional paid in capital	32,775,147	34,735,278
Retained earnings	20,271,733	22,397,154
Unearned common stock held by:		
Employee Stock Ownership Plan	(2,031,360)	(2,369,920)
2019 Equity Incentive Plan	(1,459,134)	(1,908,570)
Accumulated other comprehensive income	211,088	671,867
Total stockholders' equity	49,802,692	53,562,715
Total liabilities and stockholders' equity	$ 249,469,164	$ 234,803,603

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

CBM Bancorp, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2021 and 2020

	For the Years Ended December 31,	
	2021	2020
Interest and dividend income		
Interest and fees on loans	$ 7,123,481	$ 7,790,136
Interest and dividends on investments	680,884	976,096
Total interest and dividend income	7,804,365	8,766,232
Interest expense		
Interest on deposits	1,121,129	1,413,710
Interest on borrowings	47,906	66,031
Total interest expense	1,169,035	1,479,741
Net interest income	6,635,330	7,286,491
(Reversal of) provision for loan losses	(150,000)	350,000
Net interest income after (reversal of) provision for loan losses	6,785,330	6,936,491
Non-interest income		
Service fees on deposit accounts	113,263	111,692
Income from bank-owned life insurance	900,338	107,632
Gain on sale of loans held for sale	755,483	1,077,913
Gain on sale of investment securities	-	143,223
Other non-interest income	148,963	133,431
Total non-interest income	1,918,047	1,573,891
Non-interest expense		
Salaries, director fees and employee benefits	4,623,296	4,679,358
Premises and equipment	449,778	429,545
Data processing	597,731	574,371
Professional fees	576,250	504,374
FDIC premiums and regulatory assessments	117,541	85,825
Marketing	71,605	60,058
Provision for losses and costs on foreclosed real estate	181,974	85,299
Other operating expenses	697,987	729,444
Total non-interest expense	7,316,162	7,148,274
Income before income taxes	1,387,215	1,362,108
Income tax expense	202,705	419,551
Net income	$ 1,184,510	$ 942,557
Earnings per common share		
Basic	$ 0.36	$ 0.26
Diluted	$ 0.35	$ 0.26

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

CBM Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2021 and 2020

	For the Years Ended December 31, 2021	For the Years Ended December 31, 2020
Net income	$ 1,184,510	$ 942,557
Other comprehensive (loss) income		
Unrealized (loss) gain on investment securities available for sale	(635,711)	372,251
Reclassification adjustment for realized gain on investment securities available for sale included in net income	-	(143,223)
Total unrealized (loss) gain on investments securities available for sale	(635,711)	229,028
Income tax benefit (expense) relating to investment securities available for sale	174,932	(63,023)
Other comprehensive (loss) income	(460,779)	166,005
Total comprehensive income	$ 723,731	$ 1,108,562

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

CBM Bancorp, Inc.
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Unearned RSA Shares	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2020	$ 42,085	$ 42,210,056	$ 23,243,847	$ (2,708,480)	$ (2,357,994)	$ 505,862	$ 59,935,376
Net income	-	-	942,557	-	-	-	942,557
Other comprehensive income	-	-	-	-	-	166,005	166,005
Cash dividends $0.50 per share	-	-	(1,789,250)	-	-	-	(1,789,250)
ESOP shares committed to be released	-	95,812	-	338,560	-	-	434,372
Vesting of restricted stock awards	-	(449,424)	-	-	449,424	-	-
Stock based compensation	-	711,556	-	-	-	-	711,556
Repurchase of common stock	(5,179)	(6,832,722)	-	-	-	-	(6,837,901)
Balance, December 31, 2020	$ 36,906	$ 34,735,278	$ 22,397,154	$ (2,369,920)	$ (1,908,570)	$ 671,867	$ 53,562,715
Net income	-	-	1,184,510	-	-	-	1,184,510
Other comprehensive loss	-	-	-	-	-	(460,779)	(460,779)
Cash dividends $1.00 per share	-	-	(3,309,931)	-	-	-	(3,309,931)
ESOP shares committed to be released	-	145,581	-	338,560	-	-	484,141
Vesting of restricted stock awards	-	(449,436)	-	-	449,436	-	-
Stock based compensation	-	731,752	-	-	-	-	731,752
Repurchase of common stock	(1,688)	(2,388,028)	-	-	-	-	(2,389,716)
Balance December 31, 2021	$ 35,218	$ 32,775,147	$ 20,271,733	$ (2,031,360)	$ (1,459,134)	$ 211,088	$ 49,802,692

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

CBM Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	For the Years Ended December 31, 2021	For the Years Ended December 31, 2020
Cash flows from operating activities:		
Net income	$ 1,184,510	$ 942,557
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of securities	34,304	51,921
Gain on sale of loans held for sale	(755,483)	(1,077,913)
Originations of loans held for sale	(21,955,574)	(41,646,049)
Proceeds from sales of loans held for sale	28,784,839	38,380,610
Gain on sale of investment securities	-	(143,223)
Amortization of net deferred loan origination fees	(594,782)	(410,932)
(Reversal of) provision for loan losses	(150,000)	350,000
Decrease in accrued interest receivable	79,761	49,813
Gain on death benefit from bank-owned life insurance	(802,267)	-
Increase in cash surrender value of life insurance	(98,071)	(107,632)
Depreciation and amortization	147,860	145,439
Loss on sale of foreclosed real estate	172,711	-
Loss on writedown of foreclosed real estate	-	70,000
ESOP compensation expense	484,141	434,372
Stock based compensation expense	731,752	711,556
Deferred income tax (benefit), net	461,444	(194,370)
(Increase) decrease in prepaid expenses and other assets	(566,697)	15,073
(Decrease) increase in accounts payable and other liabilities	(561,599)	42,863
Net cash provided by (used in) operating activities	6,596,849	(2,385,915)
Cash flows from investing activities:		
Net maturities of time deposits in other banks	1,736,000	1,490,000
Purchases of available for sale securities	(8,985,318)	-
Proceeds from maturities, payments and calls of available for sale securities	5,795,870	13,552,586
Proceeds from sales of investment securities	-	7,312,769
Redemptions (purchases) of Federal Home Loan Bank stock	81,000	(110,500)
Net decrease in loans	882,269	9,727,611
Proceeds from bank-owned life insurance death benefit	3,220,464	-
Purchases of premises and equipment	(25,593)	(70,381)
Proceeds from sale of foreclosed real estate	602,289	-
Net cash provided by investing activities	3,306,981	31,902,085
Cash flows from financing activities:		
Net increase in deposits	19,035,261	18,339,249
Net decrease in advances by borrowers	(48,078)	(107,427)
Net increase in borrowings	-	2,500,000
Repurchase common stock	(2,389,716)	(6,837,901)
Cash dividends on common stock	(3,309,931)	(1,789,250)
Net cash provided by financing activities	13,287,536	12,104,671
Net increase in cash and cash equivalents	23,191,366	41,620,841
Cash and cash equivalents, beginning balance	47,607,962	5,987,121
Cash and cash equivalents, ending balance	$ 70,799,328	$ 47,607,962
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 1,168,914	$ 1,480,243
Cash paid for income taxes	543,000	625,000

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

Note 1. Significant Accounting Policies

Nature of Operations

CBM Bancorp, Inc. ("CBM Bancorp" or "Company") is the holding company for Chesapeake Bank of Maryland ("Bank") and was formed in connection with the conversion of the Bank from the mutual to the stock form of organization. On September 27, 2018, the mutual to stock conversion of the Bank was completed and the Company became the parent holding company for the Bank. Shares of the Company began trading on the Nasdaq Capital Market on September 28, 2018. On October 7, 2021, CBM Bancorp announced that it had given formal notice to the Nasdaq Stock Market to voluntarily delist its common stock from the Nasdaq Capital Market. The Company also announced its intention to deregister its common stock under Section 12(b) of the Securities Exchange Act of 1934. The last trading day of its common stock on the Nasdaq Capital Market was on October 29, 2021 after which the shares were quoted on the OTC Pink Open Market. The Company is subject to regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Bank").

CBM Bancorp's primary business is the ownership and operation of the Bank, a community-oriented federal stock savings bank regulated by the Office of the Comptroller of the Currency. The Bank's primary business activity is the acceptance of deposits from the general public and using the proceeds for loan originations and investments. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by the regulatory authorities.

In accordance with federal and state regulations, at the time of the conversion from mutual to stock form, the Bank substantially restricted retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, each account holder will be entitled to receive a distribution in an amount proportionate to the adjusted qualifying account balances then held.

The Company may not pay a dividend on, or repurchase any of, its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements. In addition, the Company is subject to certain other regulations restricting the payment of dividends on, and the repurchase of, its capital stock.

Basis of Presentation

The accounting and reporting policies of CBM Bancorp and the Bank conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices in the banking industry. The more significant policies follow:

Principles of Consolidation

The consolidated financial statements include the accounts of CBM Bancorp and the Bank, its wholly owned subsidiary. Material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the valuation of deferred tax assets. In connection with the determination of the allowances for loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and interest-bearing deposits in other banks.

Note 1. Significant Accounting Policies (Continued)

Time Deposits in Other Banks

The Bank uses financial instruments to supplement the investment securities portfolio. Interest income is recognized as earned. Purchase premiums and discounts are recognized as part of interest income using the interest method over the terms of the investments. Realized gains and losses on the sale of time deposits in other banks are included in earnings based on the trade date and are determined using the specific identification method. Time deposits in other banks are not marked to market.

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity and are reported at amortized cost (including amortization of premium or accretion of discount).

Securities classified as available for sale are carried at fair value and are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains and losses, determined on the basis of the cost of the specific securities sold, are included in earnings on a trade date basis. Premiums and discounts are recognized in interest income using a method which approximates the interest method over the terms of the securities. Declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary, if any, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value

Federal Home Loan Bank Stock

Federal Home Loan Bank of Atlanta ("FHLB") stock is an equity interest in the FHLB, which does not have a readily determinable fair value for purposes of U.S. GAAP related to *Accounting for Certain Investments in Debt and Equity Securities,* because its ownership is restricted and it lacks a market. FHLB stock represents the required investment in the common stock of the Federal Home Loan Bank of Atlanta according to a predetermined formula. FHLB stock can be sold back only at par value of $100 per share and only to the FHLB or another member institution.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on loan sales are recorded in non-interest income, and loan origination fees, net of certain direct origination costs are deferred at origination of the loan and are recognized in non-interest income upon sale of the loan. The Bank's current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing. Interest on loans held for sale is credited to income based on the principal amounts outstanding.

The Bank enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e., rate lock commitment). Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. The period of time between the issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 90 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the investor commits to purchase a loan at a price representing a premium on the day the borrower commits to an interest rate with the intent that they buyer/investor has assumed the interest rate risk on the loan. As a result, the Bank is not generally exposed to losses on loans sold utilizing best efforts, nor will it realize gains related to rate lock commitments due to changes in interest rates. The fair value of the rate lock commitments was considered immaterial at December 31, 2021 and 2020 and an adjustment was not recorded. Loans held for sale that are not ultimately sold, but instead are placed into the Bank's portfolio, are reclassified as loans held for investment and recorded at fair value.

Note 1. Significant Accounting Policies (Continued)

Loans

Loans are generally carried at the amount of unpaid principal, less the allowance for loan losses and adjusted for deferred loan origination fees and costs, which are recognized over the term of the loan as an adjustment to yield using a method that approximates the interest method. Interest on loans is accrued based on the principal amounts outstanding. It is the Bank's policy to discontinue the accrual of interest when the principal or interest is delinquent for 90 days or more, or if collection of principal and interest in full is in doubt.

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. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The carrying value of impaired loans is based on the present value of the loan's expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

Impaired loans also include certain loans that have been modified in a troubled debt restructuring ("TDR") to make concessions to help a borrower remain current on the loan and/or to avoid foreclosure. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Generally nonaccrual loans that are modified and are considered TDRs are classified as nonperforming at the time of the restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The Bank maintains the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. The evaluation process by portfolio segment includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of the loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience.

The establishment of the allowance for loan losses is significantly affected by management's judgment and uncertainties, and there is likelihood that different amounts would be reported under different conditions or assumptions. The Office of the Comptroller of the Currency as an integral part of its examination process periodically reviews the allowance for loan losses and may require the Bank to make additional provisions for estimated loan losses based upon judgments different from those of management.

The Bank's policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss, are those considered uncollectible and of such little value that their recognition as assets is not justified. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.

Note 1. Significant Accounting Policies (Continued)

While the Bank utilizes available information to recognize losses on loans, future additions to the allowances for loan losses may be necessary based on changes in economic conditions, particularly in its' market area primarily in the state of Maryland. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Actual loan losses may be significantly more than the allowance for loan and lease losses the Bank has established, which could have a material negative effect on our consolidated financial statements.

Bank-Owned Life Insurance ("BOLI")

The Bank maintains life insurance policies on certain present and former directors. These policies are split-dollar or director insurance policies. Under the split-dollar insurance policies, the Bank pays the premiums and upon the death of the insured, the Bank will receive an amount equal to the premiums paid on the policy from the policy date to the date of death. Any remaining proceeds will be paid to the beneficiary. If the policy is surrendered before the date of death, the Bank will receive the lesser of the cash surrender value or the sum of the premiums paid on the policy from the policy date to the date of surrender. Under the director insurance policies, the Bank receives the cash surrender value if the policy is surrendered, or receives all benefits payable upon the death of the insured. As of December 31, 2021 and 2020, $120,468 and $121,388 respectively, was included in other liabilities related to the split-dollar insurance policies.

Premises and Equipment

Land is carried at cost. Property and equipment is carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives of assets. Amortization of leasehold improvements is recognized on a straight-line basis over the term of the lease or the life of the improvement, whichever is shorter.

The cost of maintenance and repairs is charged to expense as incurred whereas improvements are capitalized. The range of estimated useful lives for premises and equipment are as follows:

Buildings and land improvements	5 - 50 years
Leasehold improvements	10 - 15 years
Furniture, fixtures and equipment	3 - 10 years
Automobile	5 years

Foreclosed Real Estate

Real estate acquired through foreclosure or other means is recorded at the fair value of the related real estate collateral at the transfer date less estimated selling costs. Losses incurred at the time of the acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated fair value of the property are included in noninterest expense. Costs to maintain foreclosed real estate are expensed as incurred.

Employee Stock Ownership Plan ("ESOP")

Compensation expense is recognized based on the current market price of shares committed to be released to employees. All shares released and committed to be released are deemed outstanding for purposes of earnings per share calculations. Dividends declared and paid on allocated shares held by the ESOP are charged to retained earnings. The value of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of stockholders' equity. Dividends declared on unallocated shares held by the ESOP are recorded as a reduction of the ESOP's loan payment to the Company.

Stock Based Compensation

Compensation cost is recognized for stock options and restricted stock awards ("RSA") issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for RSAs. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Note 1. Significant Accounting Policies (Continued)

Income Taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income. Deferred income taxes and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted through earnings for the effects of changes in tax laws and rates on the date of enactment.

Earnings per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Weighted average shares include allocated ESOP shares and ESOP shares committed to be released but exclude unallocated ESOP shares. Diluted earnings per share includes additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet. Such financial instruments are recorded when they are funded.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of these instruments. The Bank uses the same credit policies for these instruments as it does for the on-balance sheet instruments.

Concentrations of Credit Risk

As of December 31, 2021 and 2020, the Bank had no deposits in other financial institutions in excess of amounts insured by the FDIC. The Bank also maintains accounts with brokerage firms containing securities. These balances are insured up to $500,000 by the Securities Investor Protection Corporation.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law. The CARES Act creates a forbearance program for federally backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the National Emergency, and provides financial institutions the option to temporarily suspend certain requirements under U.S. GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19.

Recent Accounting Pronouncements

ASU 2016-13, Financial Instruments – Credit Losses. The ASU sets forth a "current expected credit loss" (CECL) model which requires the Bank to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. Entities will apply the standard's provisions as a cumulative-effect (i.e., modified retrospective approach). The Company has begun to gather loan information and consider acceptable methodologies to comply with this ASU. The Company's initial evaluation indicates that the provisions of this ASU are expected to impact its consolidated financial statements, in particular the level of reserve for loan losses and is continuing to evaluate and assess the impact of the adoption of this ASU on its consolidated financial statements. This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

Note 2. Securities

The amortized cost and estimated fair value of securities classified as available for sale at December 31, 2021 and 2020, are as follows:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
U.S. Government and Federal Agency obligations	$ 9,484,282	$ 1,159	$ (147,157)	$ 9,338,284
Residential mortgage-backed securities	9,287,407	469,194	(31,971)	9,724,630
	$ 18,771,689	$ 470,353	$ (179,128)	$ 19,062,914

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
U.S. Government and Federal Agency obligations	$ 2,499,671	$ 54,342	$ -	$ 2,554,013
Residential mortgage-backed securities	13,116,916	872,595	-	13,989,511
	$ 15,616,587	$ 926,937	$ -	$ 16,543,524

There were no sales of investment securities for the year ended December 31, 2021. Proceeds from the sale of available securities totaled $7,312,769 realizing gross gains of $143,223 for the year ended December 31, 2020.

The amortized cost and estimated fair value of securities as of December 31, 2021 and 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2021 Securities Available for Sale		December 31, 2020 Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,499,974	$ 1,501,133	$ 1,000,000	$ 1,025,162
Due after one year through five years	7,984,308	7,837,151	1,499,671	1,528,851
Due five years to ten years	-	-	-	-
Mortgage-backed, monthly installments	9,287,407	9,724,630	13,116,916	13,989,511
	$ 18,771,689	$ 19,062,914	$15,616,587	$16,543,524

Note 2. Securities (Continued)

Securities with gross unrealized losses at December 31, 2021 aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

	December 31, 2021					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale						
U.S. Government and Federal Agency obligations	$ 7,837,151	$ 147,157	$ -	$ -	$ 7,837,151	$ 147,157
Residential mortgage-backed securities	923,818	31,971	-	-	923,818	31,971
	$ 8,760,969	$ 179,128	$ -	$ -	$ 8,760,969	$ 179,128

At December 31, 2021, the Bank held eleven investments with gross unrealized losses totaling $179,128. The Bank did not have any securities with gross unrealized losses at December 31, 2020. The unrealized losses that existed were a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings if any of the following are true: (1) the Bank intends to sell the debt security; (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the Bank does not expect to recover the entire amortized cost basis of the security. In situations where the Bank intends to sell or when it is more likely than not that the Bank will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in equity as a component of other comprehensive income, net of deferred tax. There were no securities pledged as of December 31, 2021 and 2020.

Note 3. Loans

The Bank makes loans to customers primarily in the Baltimore Metropolitan Area and its surrounding counties. The principal loan portfolio segment balances at December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Real estate loans		
One-to-four family	$ 60,019,195	$ 62,117,559
Home equity loans and lines of credit	3,538,397	6,894,632
Construction and land development	13,739,964	10,804,315
Nonresidential	62,680,419	60,209,896
Total real estate loans	139,977,975	140,026,402
Other loans		
Commercial	9,972,353	10,197,884
Consumer	279,278	336,507
Total other loans	10,251,631	10,534,391
Total loans	150,229,606	150,560,793
Net deferred loan origination fees and costs	(203,483)	(254,795)
Allowance for loan losses	(1,584,828)	(1,727,216)
Total loans, net	$ 148,441,295	$ 148,578,782

Note 3. Loans (Continued)

Overdraft deposits are reclassified as consumer loans and are included in the total loans on the balance sheet. Overdrafts were $1,331 and $1,739 at December 31, 2021 and 2020, respectively.

Paycheck Protection Program

The CARES Act authorized the Small Business Administration ("SBA") to temporarily guarantee loans under the 7(a) loan program called the Paycheck Protection Program ("PPP"). As a qualified lender, we were automatically authorized to originate PPP loans. In early April 2020, the Company began accepting and processing applications for PPP loans. During the year ended December 31, 2020 we processed 101 PPP loans in the amount of $8,563,898. During the year ended December 31, 2021, we processed an additional 84 PPP loans in the amount of $5,107,009. As of December 31, 2021, borrowers applied for and received forgiveness on PPP loans in the amount of $13,553,706.

We recorded fee income of $375,239 and $186,432 during the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021, our outstanding PPP loan balances are $117,201. As of December 31, 2020, our outstanding PPP loans were $4,479,894.

Note 4. Credit Quality of Loans and the Allowance for Loan Losses

The Bank currently manages its credit products and respective exposure to credit losses by the following specific portfolio segments which are levels at which the Bank develops and documents its systematic methodology to determine the allowance for loan losses attributable to each respective portfolio segment. The segments are:

- **One-to-four family real estate loans** – This residential real estate category contains permanent mortgage loans and construction permanent mortgage loans to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may either be conforming or non-conforming.

- **Home equity loans and lines of credit** – This residential real estate category includes mortgage loans and lines of credit secured by one-to-four family residential real estate. These loans are typically secured with second mortgages on the homes.

- **Construction and land development** – Commercial acquisition, development and construction loans are intended to finance the construction of commercial and residential properties and include loans for the acquisition and development of land. Construction loans represent a higher degree of risk than permanent real estate loans and may be affected by a variety of factors such as the borrower's ability to control costs and adhere to time schedules and the risk that constructed units may not be absorbed by the market within the anticipated time frame or at the anticipated price. The loan commitment on these loans often includes an interest reserve that allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan.

- **Nonresidential real estate loans –** Nonresidential real estate loans consist of commercial permanent mortgage loans and commercial construction permanent mortgage loans secured by owner occupied and non-owner occupied properties. Owner occupied commercial property loans involve a variety of property types to conduct the borrower's operations. The primary source of repayment for this type of loan is the cash flow from the business and is based upon the borrower's financial health and ability of the borrower and the business to repay. Non-owner occupied commercial property loans involve investment properties for warehouse, retail, and office space with a history of occupancy and cash flow. This real estate category contains commercial mortgage loans to the developers and owners of commercial real estate where the borrower intends to operate or sell the property at a profit and use the income stream or proceeds from the sale to repay the loan.

- **Commercial loans** - Commercial loans are made to provide funds for equipment and general corporate needs. Repayment of the loan primarily uses the funds obtained from the operation of the borrower's business. Commercial loans also include lines of credit that are utilized to finance a borrower's short-term credit needs and/or finance a percentage of eligible receivables and inventory, as well as PPP loans.

Note 4. Credit Quality of Loans and the Allowance for Loan Losses

- **Consumer loans** – This category of loans includes primarily installment loans. Consumer loans include installment loans used by customers to purchase automobiles, boats and recreational vehicles.

The allowance for loan losses is maintained at a level to provide for losses that are probable and can be reasonably estimated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent losses in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Determinations as to the classification of assets and the amount of loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. The Bank regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

A loan is considered past due or delinquent when a contractual payment is not paid on the day it is due. A loan in 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 for all loans secured by real estate by the fair value of the collateral if the loan is collateral dependent. If the loan repayment is not deemed collateral dependent, impairment is measured on the net present value of the expected discounted future cash flows.

Loans are automatically placed on non-accrual status when payment of principal or interest is more than 90 days delinquent. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt or if the loan has been restructured. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if unpaid principal and interest are repaid so that the loan is less than 90 days delinquent. The Bank's charge-off policy states after all collection efforts have been exhausted, the loan is deemed to be a loss and the amount has been determined, the loss amount will be charged to the allowance for loan losses.

The following tables summarize the activity in the allowance for losses for the years ended December 31, 2021 and 2020 and the distribution of the allowance for loan losses and loans receivable by loan portfolio class and impairment method as of December 31, 2021 and 2020.

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

	As of December 31, 2021							
	One –to Four-Family	Home Equity Loans and Lines of Credit	Construction and Land Development	Nonresidential	Commercial	Consumer	Unallocated	Total
Beginning Balance	$ 339,817	$ 64,350	$ 206,362	$ 1,043,596	$ 68,380	$ 4,711	$ -	$ 1,727,216
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	7,612	-	-	-	-	-	7,612
(Release of) provision for loan losses	(66,819)	(40,415)	18,973	(85,204)	25,244	(1,779)	-	(150,000)
Ending Balance	$ 272,998	$ 31,547	$ 225,335	$ 958,392	$ 93,624	$ 2,932	$ -	$ 1,584,828
Ending balance: individually evaluated for impairment	$ 6,842	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,842
Ending balance: collectively evaluated for impairment	$ 266,156	$ 31,547	$ 225,335	$ 958,392	$ 93,624	$ 2,932	$ -	$ 1,577,986
Loans:								
Ending balance	$ 60,019,195	$ 3,538,397	$ 13,739,964	$ 62,680,419	$ 9,972,353	$ 279,278		$ 150,229,606
Ending balance: individually evaluated for impairment	$ 318,363	$ 33,150	$ -	$ -	$ -	$ -		$ 351,513
Ending balance: collectively evaluated for impairment	$ 59,700,832	$ 3,505,247	$ 13,739,964	$ 62,680,419	$ 9,972,353	$ 279,278		$ 149,878,093

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

	As of December 31, 2020							
	One –to Four-Family	Home Equity Loans and Lines of Credit	Construction and Land Development	Nonresidential	Commercial	Consumer	Unallocated	Total
Beginning Balance	$ 331,605	$ 62,603	$ 179,541	$ 683,453	$ 55,571	$ 6,950	$ 59,427	$ 1,379,150
Charge-offs	-	-	(263)	-	-	(3,633)	-	(3,896)
Recoveries	-	1,962	-	-	-	-	-	1,962
Provision for loan losses	8,212	(215)	27,084	360,143	12,809	1,394	(59,427)	350,000
Ending Balance	$ 339,817	$ 64,350	$ 206,362	$ 1,043,596	$ 68,380	$ 4,711	$ -	$ 1,727,216
Ending balance: individually evaluated for impairment	$ 7,501	$ 97	$ -	$ -	$ -	$ -	$ -	$ 7,598
Ending balance: collectively evaluated for impairment	$ 332,316	$ 64,253	$ 206,362	$ 1,043,596	$ 68,380	$ 4,711	$ -	$ 1,719,618
Loans:								
Ending balance	$ 62,117,559	$ 6,894,632	$ 10,804,315	$ 60,209,896	$ 10,197,884	$ 336,507		$ 150,560,793
Ending balance: individually evaluated for impairment	$ 187,845	$ 35,568	$ -	$ -	$ -	$ -		$ 223,413
Ending balance: collectively evaluated for impairment	$ 61,929,714	$ 6,859,064	$ 10,804,315	$ 60,209,896	$ 10,197,884	$ 336,507		$ 150,337,380

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of classified loans, net chargeoffs, nonperforming loans, credit scores, and the general economic conditions in the Bank's market area.

The Bank utilizes an internal rating system to monitor the credit quality of the overall loan portfolio. A description of the general characteristics is as follows:

- **Pass** – A pass loan is considered of sufficient quality to preclude a special mention or an adverse rating. Pass assets are generally well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. The pass classification also includes watch credits which have all of the characteristics of a pass loan, but warrant more than the normal level of supervision.

- **Special mention** – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

- **Substandard** – A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well defined weakness, or weaknesses, that jeopardize the collection or liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. This will be the measurement for determining if a loan is impaired.

- **Doubtful** – A doubtful loan has all of the weaknesses inherent in a substandard credit with the added factor that the weaknesses make the collection or liquidation in full, on the basis of current information, conditions and values, highly questionable and improbable. Loans in this category must be placed on non-accrual status and all payments applied to principal recapture. Doubtful classification should be used only when a distinct possibility of loss exists. When identified, adequate loss should be recorded for the specific assets. It is not necessary to classify an entire credit doubtful when collection of a specific portion appears highly probable.

- **Loss** – A loan classified as loss is considered uncollectable and of such little value that continuance as a loan in unjustified. A loss classification does not mean that the credit has absolutely no value; partial recoveries may be received in the future. Amounts classified as loss must be charged-off in the period in which they are deemed uncollectible.

When assets are classified as impaired, the Bank allocates a portion of the related general loss allowances to such assets as the Bank deems prudent. Determinations as to the classification of assets and the amount of loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. The Bank regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

The following table is a summary of the loan portfolio quality indicators by loan class recorded investment as of December 31, 2021 and 2020:

	December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate loans:					
One-to-four family	$ 59,557,205	$ 231,493	$ 230,497	$ -	$ 60,019,195
Home equity loans and lines of credit	3,505,247	-	33,150	-	3,538,397
Construction and land development	13,739,964	-	-	-	13,739,964
Nonresidential	62,680,419	-	-	-	62,680,419
Other loans:					
Commercial	9,972,353	-	-	-	9,972,353
Consumer	279,278	-	-	-	279,278
Total loans	$ 149,734,466	$ 231,493	$ 263,647	$ -	$ 150,229,606

	December 31, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate loans:					
One-to-four family	$ 61,657,131	$ 272,583	$ 187,845	$ -	$ 62,117,559
Home equity loans and lines of credit	6,874,011	20,621	-	-	6,894,632
Construction and land development	10,804,315	-	-	-	10,804,315
Nonresidential	58,831,855	1,378,041	-	-	60,209,896
Other loans:					
Commercial	10,197,884	-	-	-	10,197,884
Consumer	336,507	-	-	-	336,507
Total loans	$ 148,701,703	$ 1,671,245	$ 187,845	$ -	$ 150,560,793

The following table sets forth certain information with respect to our loan portfolio delinquencies by loan class and amount as of December 31, 2021 and 2020:

	December 31, 2021							
	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Real estate loans:								
One-to-four family	$ -	$ 158,670	$ 230,497	$ 389,167	$ 59,630,028	$ 60,019,195	$ -	$ 230,497
Home equity loans and lines of credit	-	15,824	20,621	36,445	3,501,952	3,538,397	-	33,150
Construction and land development	-	-	-	-	13,739,964	13,739,964	-	-
Nonresidential	-	-	-	-	62,680,419	62,680,419	-	-
Other loans:								
Commercial	-	-	-	-	9,972,353	9,972,353	-	-
Consumer	997	-	-	997	278,281	279,278	-	-
Total loans	$ 997	$ 174,494	$ 251,118	$ 426,609	$ 149,802,997	$ 150,229,606	$ -	$ 263,647

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

	December 31, 2020							
	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Real estate loans:								
One-to-four family	$ 9,199	$ -	$ 187,845	$ 197,044	$ 61,920,515	$ 62,117,559	$ -	$ 187,845
Home equity loans and lines of credit	-	-	-	-	6,894,632	6,894,632	-	-
Construction and land development	-	-	-	-	10,804,315	10,804,315	-	-
Nonresidential	-	-	-	-	60,209,896	60,209,896	-	-
Other loans:								
Commercial	-	-	-	-	10,197,884	10,197,884	-	-
Consumer	-	-	-	-	336,507	336,507	-	-
Total loans	$ 9,199	$ -	$ 187,845	$ 197,044	$ 150,363,749	$ 150,560,793	$ -	$ 187,845

At December 31, 2021 and 2020 there were no loans 90 days past due and still accruing interest. At December 31, 2021, the Bank had five loans on non-accrual status with foregone interest in the amount of $15,936. At December 31, 2020, the Bank had three loans on non-accrual status with foregone interest in the amount of $8,895.

In response to the COVID-19 pandemic and its economic impact to our customers, we implemented a short-term modification program that complies with the CARES Act and ASC 310-40 to provide temporary payment relief to those borrowers directly impacted by COVID-19 who were not more than 30 days past due as of December 31, 2019. This program allowed for a deferral of payments for 90 days, which we extended for an additional 90 days for certain loans, for a maximum of 180 days on a cumulative and successive basis.

During the year ended December 31, 2020, the Bank received and approved requests to modify 61 loans with total balances of approximately $26,100,000 due to the effects of COVID-19. The Bank’s modifications primarily consisted of interest only payments with the deferral of principal for up to six months, dependent on the borrower and the borrower’s financial situation. All the borrowers whose loans were modified during the year ended December 31, 2020 due to the effects of COVID-19, complied with their loan modification agreements. During the year ended December 31, 2021 the Bank received and approved eight additional modification requests with total balances of approximately $2,500,000. All the borrowers whose loans were modified during the year ended December 31, 2021 due to the effects of COVID-19, complied with their loan modification agreements. In general, the Bank does not classify such modified loans as nonperforming and continues to accrue and recognize interest income during the forbearance period.

Additionally, none of the deferrals are reflected in the Company’s asset quality measures (i.e. non-performing loans) due to the provision of the CARES Act that permits U.S. financial institutions to temporarily suspend the U.S. GAAP requirements to treat such short-term modifications as TDR. Similar provisions have also been confirmed by interagency guidance issued by the federal banking agencies and confirmed with staff members of the Financial Accounting Standards Board.

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

The Bank accounts for impaired loans under generally accepted accounting principles. An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Bank classifies a problem asset as impaired, it provides a specific reserve for that portion of the asset that is deemed uncollectible based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or based on the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

The following table is a summary of impaired loans for the years ended December 31, 2021 and 2020:

	December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family	$ 230,497	$ 241,546	$ -	$ 231,487	$ 1,873
Home equity loans and lines of credit	33,150	33,150	-	33,813	334
With an allowance recorded:					
One-to-four family	$ 87,866	$ 87,866	$ 6,842	$ 89,340	$ 4,026
Total					
One-to-four family	$ 318,363	$ 329,412	$ 6,842	$ 320,827	$ 5,899
Home equity loans and lines of credit	33,150	33,150	-	33,813	334

	December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One-to-four family	$ 97,032	$ 98,970	$ -	$ 97,804	$ 1,927
With an allowance recorded:					
One-to-four family	$ 90,813	$ 90,813	$ 7,501	$ 88,012	$ 4,019
Home equity loans and lines of credit	35,568	35,568	97	38,005	2,238
Total					
One-to-four family	$ 187,845	$ 189,783	$ 7,501	$ 185,816	$ 5,946
Home equity loans and lines of credit	35,568	35,568	97	38,005	2,238

Impaired loans also include certain loans that have been modified in a troubled debt restructuring (a "TDR") to make concessions to help a borrower remain current on the loan and/or to avoid foreclosure. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Generally nonaccrual loans that are modified and are considered TDRs are classified as nonperforming at the time of the restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)

A summary of TDRs at December 31, 2020 and 2019 are as follows:

December 31, 2021	Number of Contracts	Performing	Nonperforming	Total
One-to-four family	1	$ 87,866	$ -	$ 87,866

December 31, 2020	Number of Contracts	Performing	Nonperforming	Total
One-to-four family	1	$ -	$ 90,813	$ 90,813
Home equity loans and lines of credit	1	35,568	-	35,568
	2	$ 35,568	$ -	$ 126,381

The Bank one TDR at December 31, 2021 totaling $87,866 and two TDRs at December 31, 2020 totaling $126,381. The Bank has no commitments to loan additional funds to borrowers whose loans have been modified. There were no TDRs reclassified to nonperforming loans during the year ended December 31, 2021 and 2020. A default is considered to have occurred once the TDR is past due 90 days or more, or it has been placed on nonaccrual.

If loans modified in a TDR subsequently default, the Bank evaluates the loan for possible further impairment. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

Note 5. Premises and Equipment

Premises and equipment at December 31, 2021 and 2020, were as follows:

	2021	2020
Cost		
Land	$ 619,926	$ 619,926
Buildings and land improvements	2,762,666	2,741,314
Leasehold improvements	160,469	160,469
Furniture, fixtures, and equipment	887,135	884,077
Total	4,430,196	4,405,786
Less: accumulated depreciation	(2,798,855)	(2,652,178)
	$ 1,631,341	$ 1,753,608

Depreciation expense totaled $147,860 and $145,439 for the years ended December 31, 2021 and 2020, respectively.

Note 6. Foreclosed Real Estate

At December 31, 2021 the Bank had no foreclosed real estate. At December 31, 2020 the Bank had $775,000 in foreclosed real estate. During the year ended December 31, 2021, the Bank disposed of foreclosed real estate in the amount of $602,289 recording a loss on the sale of $172,711. The Bank did not dispose of any real estate during the year ended December 31, 2020.

Note 6. Foreclosed Real Estate (Continued)

The following table summarizes changes in foreclosed real estate for the years ended December 31, 2021 and 2020, which are measured on a nonrecurring basis using significant unobservable, Level 3, inputs:

	2021	2020
Balance, beginning of period	$ 775,000	$ 845,000
Sale of foreclosed real estate	(602,289)	-
Loss on sale of foreclosed real estate	(172,711)	-
Write-down of foreclosed real estate	-	(70,000)
Balance, end of period	$ -	$ 775,000

At December 31, 2021 and 2020, there were no loans in the process of foreclosure. At December 31, 2021 and 2020, there were no residential real estate properties included in foreclosed real estate.

Note 7. Deposits

Deposits as of December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Noninterest-bearing demand	$ 36,799,290	$ 32,650,939
Interest-bearing demand	31,536,529	25,190,673
Money market	14,380,687	10,728,201
Savings	37,648,589	27,376,013
Certificates of deposit	73,450,288	78,834,296
Total deposits	$ 193,815,383	$ 174,780,122

Deposit accounts in the Bank are federally insured up to $250,000 per depositor. The aggregate amount of certificates of deposit with balances of $250,000 or more totaled $17,921,825 and $18,339,134 at December 31, 2021 and 2020, respectively.

At December 31, 2021, certificates of deposit and their remaining maturities were as follows:

December 31,	
2022	$ 31,038,439
2023	19,360,501
2024	15,314,008
2025	5,677,379
2026	2,059,961
	$ 73,450,288

Deposit balances of officers and directors totaled $1,064,548 and $973,464 at December 31, 2021 and 2020, respectively.

Note 8. Borrowings

The Bank has advances outstanding from the FHLB. A schedule of borrowings is as follows:

December 31, 2021			December 31, 2020		
Amount	**Rate**	**Maturity Date**	**Amount**	**Rate**	**Maturity Date**
$ 5,000,000	0.95%	03/06/2023	$ 5,000,000	0.95%	03/06/2023

The Bank has an agreement with the FHLB that allows it to obtain advances secured by assets owned by the Bank. Total advances are limited to 25% of the Bank's total assets. As of December 31, 2021 and 2020, the Bank had total credit availability of approximately $62,300,000 and $58,700,000, respectively, and remaining credit availability of approximately $57,300,000 and $53,700,000, respectively, with FHLB. As of December 31, 2021 and 2020, the Bank pledged a portion of its one-to-four family residential mortgages as collateral. The amount of loans that were deemed eligible to pledge as collateral totaled approximately $44,400,000 and $43,700,000 at December 31, 2021 and 2020, respectively.

The Bank also has a $2,000,000 unsecured federal funds line of credit available with another financial institution, for which no amounts were outstanding as of December 31, 2021 and 2020.

Note 9. Employee Stock Ownership Plan

In connection with the Bank's mutual to stock conversion in September 2018, the Bank established the Chesapeake Bank of Maryland Employee Stock Ownership Plan ("ESOP") for all eligible employees. The ESOP purchased 338,560 shares of Company common stock in the Company's initial public offering at $10.00 per share with the proceeds of a ten (10) year loan from the Company. The interest rate on the ESOP loan is fixed at 5.25%. The Bank intends to make annual contributions to the ESOP that at a minimum will permit the ESOP to repay the principal and interest due on the ESOP debt. However, the Bank may prepay the principal of the note, partially or in full and without penalty or premium at any time and from time to time without prior notice to the holder. Any dividends declared on Company common stock held by the ESOP and not allocated to the account of a participant can be used to repay the loan. As the ESOP loan is repaid, shares of Company common stock pledged as collateral for the loan are released from the loan suspense account for allocation to Plan participants on the basis of each active participant's proportional share of compensation.

Participants vest 100% in their ESOP allocations after three years of service. In connection with the implementation of the ESOP, participants were given credit for past service with the Bank for vesting purposes. Participants will become fully vested upon age 65, death or disability, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon separation from service. The plan reallocates any unvested shares of common stock forfeited upon termination of employment among the remaining participants in the plan.

ESOP compensation represents the average fair market value of the shares of Company common stock allocated or committed to be released as of that date. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends, if any, on allocated shares are recorded as a reduction of retained earnings and dividends, if any, on unallocated shares are recorded as a reduction of the debt service. The ESOP compensation expense for the years ended December 31, 2021 and December 31, 2020 was $484,141 and $434,372, respectively.

A summary of ESOP shares is as follows:

	2021	2020
Shares allocated to employees	132,167	101,182
Unearned shares	203,136	236,992
Total ESOP shares	335,303	338,174
Fair value of unearned shares	$ 2,854,061	$ 3,147,254

Note 10. Income Taxes

The income tax provision reflected in the statements of income consisted of the following components for the years ended December 31, 2021 and 2020:

	2021	2020
Income tax expense		
Current tax (benefit) expense		
Federal	$ (177,922)	$ 442,461
State	(80,817)	171,460
Total current expense	(258,739)	613,921
Deferred tax expense (benefit)		
Federal	352,152	(148,334)
State	109,292	(46,036)
Total deferred expense (benefit)	461,444	(194,370)
Total income tax expense	$ 202,705	$ 419,551

A reconciliation of tax computed at the Federal statutory tax rate of 21% to the actual tax expense for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Tax at Federal statutory rate	$ 291,315	$ 286,043
Tax effect of:		
Bank owned life insurance	(189,264)	(23,018)
RSA stock vesting	(5,421)	9,486
Nondeductible expenses	3,116	2,971
Stock-based compensation expense	67,050	54,054
State income taxes, net of federal benefit	35,909	90,015
Income tax expense	$ 202,705	$ 419,551

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2021 and 2020, are as follows:

	2021	2020
Tax at Federal statutory rate	21.0%	21.0%
Tax effect of:		
Bank owned life insurance	(13.6)	(1.7)
RSA stock vesting	(0.4)	0.7
Nondeductible expenses	0.2	0.2
Stock-based compensation expense	4.8	4.0
State income taxes, net of federal benefit	2.6	6.6
Income tax expense	14.6%	30.8%

Note 10. Income Taxes (Continued)

The components of the net deferred tax asset at December 31, 2021 and 2020, were as follows:

	2021	2020
Deferred income tax assets:		
Deferred compensation	$ 17,623	$ 96,640
2019 Equity Incentive Plan compensation	160,873	126,285
Nonaccrual interest	4,386	2,448
Capitalized foreclosed asset expenses	-	338,761
Fair value of loans held for sale	-	41,827
Allowance for loan losses	486,187	523,992
	669,069	1,129,953
Deferred income tax liabilities:		
Unrealized gain on securities	80,138	255,070
Accumulated depreciation	14,827	14,267
Federal Home Loan Bank stock dividends	4,611	4,611
	99,576	273,948
Net deferred income tax asset	$ 569,493	$ 856,005

The Company maintains $1,453,708 of its retained earnings as a reserve for loan losses for tax purposes. This amount has not been charged against earnings and is a restriction on retained earnings. If this balance in the reserve account is used for anything but losses on mortgage loans or payment of special assessment taxes, it will be subject to federal income taxes.

The Company follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2021, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the Company's financial statements. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were recorded during the period ended December, 31 2021. Generally, the tax years before 2018 are no longer subject to examination by federal, state or local taxing authorities.

Note 11. Benefit Plans

Deferred Compensation Arrangements

The Bank has deferred compensation agreements with former directors and officers. Under the agreements, participants will be paid deferred compensation funded in part by the proceeds in excess of the cash surrender value of life insurance policies. The Bank recognizes the increase in cash surrender value of the insurance policies as income, which amounted to $900,338 and $107,632 during the years ended December 31, 2021 and 2020, respectively.

The Bank's index retirement benefit plan was converted to a supplemental retirement plan which pays equal annual installments to the plan participants upon retirement. Participants are entitled to receive their retirement benefits commencing thirty days following their normal retirement date. Amounts accrued and included in other liabilities were $64,045 and $93,375 at December 31, 2021 and 2020, respectively. The liability is intended to be funded by whole life insurance policies owned by the Bank, insuring the directors.

Supplemental Executive Retirement Plan

The Bank had a Supplemental Executive Retirement Plan ("SERP"), which provided supplemental retirement benefits to the Chief Executive Officer of the Bank. The SERP was terminated on September 16, 2020 and provided for a lump sum payment of $263,583 as of October 1, 2021. The amount accrued and included in other liabilities related to the SERP as of December 31, 2020 was $257,820.

Note 11. Benefit Plans (Continued)

Total deferred compensation expense recognized during the years ended December 31, 2021 and 2020 was $5,763 and $57,337, respectively.

Defined Contribution Retirement Plan

The Bank established a 401(k) plan covering substantially all of its employees. In order to participate, employees must be 18 years of age and have completed one year of service. As of January 1, 2018, the plan provides for the Company to make contributions which will match employee deferrals on a one-to-one basis up to 3% of an employee's eligible compensation and an additional of 50% of the next 2% of an employee's eligible compensation for a total maximum employer contribution of 4%. Participants are 100% vested in their deferrals and employer matching contributions. Additional contributions can be made at the discretion of the Board of Directors based on the Company's performance. Contributions for the years ended December 31, 2021 and 2020 were $101,012 and $96,347, respectively.

Note 12. Stock Based Compensation

On May 14, 2019, the Board of Directors adopted the 2019 Equity Incentive Plan ("2019 Plan"), which was approved at the Annual Meeting of Stockholders. The 2019 Plan allows for up to 169,280 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 423,200 shares to be issued to employees, executive officers or Directors in the form of stock options. At December 31, 2021, there were 169,280 restricted stock awards granted and 423,200 stock option awards granted under the 2019 Plan.

Restricted Stock Award

The specific terms of each restricted stock award are determined by the Compensation Committee at the date of the grant. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the date of the grant. Participants will vest in their share awards at a rate of 20% per year over a five-year period, beginning one year after the date of the plan share award. If service to the Company is terminated for any reason other than death, disability or change in control, the unvested share awards will be forfeited.

The 2019 Equity Incentive Plan Trust ("Trust") has been established to acquire, hold, administer, invest and make distributions from the Trust in accordance with provisions of the 2019 Plan and Trust. The Company contributed sufficient funds to the Trust for the Trust to acquire 169,280 shares of common stock which are held in the Trust subject to the restricted stock award vesting requirements. The 2019 Plan provides that grants to each employee and non-employee director shall not exceed 25% and 5% of the shares available under the 2019 Plan, respectively. Shares awarded to non-employee directors in the aggregate shall not exceed 30% of the shares available under the 2019 Plan.

The following table presents a summary of the activity in the Company's restricted stock for the years ended December 31, 2021 and 2020:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2021	137,015	$ 13.31
Granted	-	-
Vested	(32,265)	13.40
Forfeited	-	-
Nonvested at December 31, 2021	104,750	$ 13.29
Fair value of vested shares	$ 906,647	

Note 12. Stock Based Compensation (Continued)

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	161,320	$ 13.40
Granted	7,960	11.90
Vested	(32,265)	13.40
Forfeited	-	-
Nonvested at December 31, 2020	137,015	$ 13.31
Fair value of vested shares	$ 428,479	

The following table outlines the vesting schedule of the nonvested restricted stock awards as of December 31, 2020:

Year Ending December 31,	Number of Restricted Shares
2022	32,265
2023	37,041
2024	33,852
2025	1,592
	104,750

The Company recorded compensation expense related to restricted stock awards of $451,282 and $444,016 during the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021, there was $1,086,313 of total unrecognized compensation expense related to nonvested shares granted under the 2019 Plan. The cost is expected to be recognized over a weighted average period of 2.5 years.

Stock Options

Under the above 2019 Plan, stock options are granted to provide the Company's directors and key employees with a proprietary interest in the Company as an as incentive to contribute to its success. The Board of Directors of the Company may grant options to eligible employees and non-employee directors based on these factors. The 2019 Plan participants will vest in their options at a rate no more rapid than 20% per year over a five year period, beginning one year after the grant date of the option. Vested options will have an exercise period of ten years commencing on the date of grant. If service to the Company is terminated for any reason other than death, disability or change in control, the unvested options shall be forfeited. The Company recognizes compensation expense during the vesting period based on the fair value of the option on the date of the grant. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical data. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of the options granted represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury rate equal to the expected term of the option at the time of the grant.

There were no stock options granted during the year ended December 31, 2021. The fair value of options granted during the year ended December 31, 2020 was determined using the following assumptions as of the grant date.

Grant Date	May 21, 2020
Expected Stock Price Volatility	23.07%
Expected Dividend Yield	0.00%
Expected Term (In Years)	7.0
Risk-Free Rate	0.68%
Fair Value of Options Granted	$ 3.07

Note 12. Stock Based Compensation (Continued)

The following table summarizes the Company's stock option activity and related information for the years ended December 31, 2021 and 2020:

December 31, 2021	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2021	423,200	$ 13.21	8.6
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2021	423,200	$ 13.21	7.6
Intrinsic value of vested shares	$ 95,758		

December 31, 2020	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2020	368,300	$ 13.40	9.4
Granted	54,900	11.90	9.4
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2020	423,200	$ 13.21	8.6
Intrinsic value of vested shares	$ -		

The Company recorded compensation expense related to stock options of $280,470 and $267,540 during the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 there was $697,493 of total unrecognized compensation expense related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted average period of 2.6 years. The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of $14.05 at December 31, 2021, the options outstanding had an intrinsic value of $357,430.

Note 13. Earnings Per Common Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Net income available to common stockholders is net income to the Company. Unallocated common shares held by the ESOP are not included in the weighted average number of common shares outstanding for purposes of calculating earnings per share until they are committed to be released. Basic earnings per share excludes dilution and is computed by dividing net income by weighted average number of common shares outstanding during the period. Dilutive earnings per share reflects the potential dilution that could occur if stock options were exercised and is computed by dividing net income by the dilutive weighted average number of common shares outstanding during the period. The computation of diluted earnings per share does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect.

	Year Ended December 31,	
	2021	2020
Net income	$ 1,184,510	$ 942,557
Weighted average common shares outstanding, basic	3,313,797	3,579,966
Weighted average common shares outstanding, dilutive	3,346,190	3,579,966
Earnings per common share, basic	$ 0.36	$ 0.26
Earnings per common share, dilutive	$ 0.35	$ 0.26

Note 14. Regulatory Capital Requirements

Information presented for December 31, 2021 and 2020, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Under these capital requirements 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 the regulatory accounting practices. The Bank's capital amounts and classifications are subject to qualitative judgements by regulators about components, risk- weightings and other factors.

Federal bank regulators require the Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity Tier 1 capital to risk-weighted assets of 4.5%, Tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 8.0%. At December 31, 2021, the Bank was "well capitalized" under the regulatory framework for prompt corrective action. To be "well capitalized," the Bank must maintain minimum leverage, common equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. There have been no conditions or events since December 31, 2021 that management believes have changed the Bank's category.

The actual and required capital amounts and ratios of the Bank as of December 31, 2021 and 2020 were as follows:

	Actual		**Capital Adequacy Purposes**		**To Be Well Capitalized Under the Prompt Corrective Action Provision**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(dollars in thousands)			
As of December 31, 2021:						
Common equity tier 1 capital (to risk-weighted assets)	$ 46,510	34.26%	$ 6,108	≥4.5%	$ 8,823	≥6.5%
Total risk-based capital (to risk-weighted assets)	46,721	35.46%	10,859	≥8.0%	13,574	≥10.0%
Tier 1 capital (to risk-weighted assets)	46,510	34.26%	8,144	≥6.0%	10,859	≥8.0 %
Tier 1 capital (to average assets)	46,510	18.74%	9,930	≥4.0%	12,412	≥5.0 %
As of December 31, 2020:						
Common equity tier 1 capital (to risk-weighted assets)	$ 43,798	28.38%	$ 6,944	≥4.5%	$ 10,030	≥6.5 %
Total risk-based capital (to risk-weighted assets)	45,570	29.53%	12,345	≥8.0%	15,431	≥10.0%
Tier 1 capital (to risk-weighted assets)	43,798	28.38%	9,259	≥6.0%	12,345	≥8.0 %
Tier 1 capital (to average assets)	43,798	18.66%	9,387	≥4.0%	11,734	≥5.0 %

The Basel III rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier I capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is 2.5% of risk-weighted assets.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies were required to develop a "Community Bank Leverage Ratio" (the ratio of a Bank's Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. A financial institution can elect to be subject to this new definition. The federal banking agencies set the minimum capital for the Community Bank Leverage Ratio at 9.00%. Pursuant to the CARES Act, the federal banking agencies in April 2020 issued interim final rules to set the Community Bank Leverage Ratio at 8% beginning in the second quarter of 2020 through the end of 2020. Beginning in 2021, the Community Bank Leverage Ratio increase to 8.5% for the calendar year. Community banks will have until Jan. 1, 2022, before the Community Bank Leverage Ratio requirement will return to 9%. The Bank did not elect to adopt the Community Bank Leverage Ratio.

Note 15. Fair Value Measurements

ASC Topic 820 provides a framework for measuring and disclosing fair value under U.S. GAAP. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or a nonrecurring basis (for example, impaired loans).

ASC Topic 820 defines fair value 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. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale is recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value all other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement and based on the Bank's own assumptions about market participants' assumptions.

The following is a description of the valuation methods used for instruments measured at fair value as the general classification of such instruments pursuant to the applicable valuation method.

Fair value measurements on a recurring basis

Securities available for sale – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and securities dare included within Level 2 of the hierarchy. As of December 31, 2021 and 2020, the Bank has categorized its investment securities available for sale as follows:

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Securities available for sale:				
U.S. Government Agency and Federal obligations	$ -	$ 9,338,284	$ -	$ 9,338,284
Residential mortgage-backed securities	-	9,724,630	-	9,724,630
December 31, 2020				
Securities available for sale:				
U.S. Government Agency and Federal obligations	$ -	$ 2,554,013	$ -	$ 2,554,013
Residential mortgage-backed securities	-	13,989,511	-	13,989,511

Note 15. Fair Value Measurements (Continued)

Fair value measurements on a nonrecurring basis

Impaired loans – The Bank measures impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of December 31, 2021 and 2020 the fair values consisted of loan balances of $351,513 and $223,413 that have been written down by $6,842 and $7,598, respectively, as a result of specific loan loss allowances.

Foreclosed real estate – The Bank's foreclosed real estate is measured at fair value less estimated cost to sell. As of December 31, 2021 and 2020, the fair value of foreclosed real estate was estimated to be $0 and $775,000, respectively. Fair value was determined based on offers and/or appraisals. Cost to sell the real estate was based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3.

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Impaired loans	$ -	$ -	$ 344,671	$ 344,671
December 31, 2020				
Impaired loans	$ -	$ -	$ 215,815	$ 215,815
Foreclosed real estate	-	-	775,000	775,000

The following table presents quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at December 31, 2021 and 2020:

	Fair Value	Value Technique(s)	Unobservable Inputs	Range or Rate Used
December 31, 2021				
Impaired loans	$ 344,671	Appraised value	Discount to reflect current market conditions	5.00%
		Discounted cash flows	Discount rates	5.75%
December 31, 2020				
Impaired loans	$ 215,815	Appraised value	Discount to reflect current market conditions	5.00- 10.00%
		Discounted cash flows	Discount rates	7.50%
Foreclosed real estate	$ 775,000	Appraised value	Discount to reflect current market conditions	10.11%

The remaining financial assets and liabilities are not reported on the balance sheet at fair value on a recurring basis. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

Note 15. Fair Value Measurements (Continued)

The estimated fair values of the Bank's financial instruments, whether carried at cost or fair value are as follows:

		Fair Value Measurements at December 31, 2021 Using			
	Carrying Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
			(dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 70,799	$ 70,799	$ -	$ -	$ 70,799
Time deposits in other banks	4,712	-	4,801	-	4,801
Securities available for sale	19,063	-	19,063	-	19,063
Federal Home Loan Bank stock	330	-	330	-	330
Loans held for sale	-	-	-	-	-
Loans, net (1)	148,441	-	-	156,885	156,885
Accrued interest receivable	526	-	526	-	526
Financial liabilities:					
Deposits	193,815	-	179,677	-	179,677
Borrowings	5,000		5,180		5,180

		Fair Value Measurements at December 31, 2020 Using			
	Carrying Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
			(dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 47,608	$ 47,608	$ -	$ -	$ 47,608
Time deposits in other banks	6,448	-	6,726	-	6,726
Securities available for sale	16,544	-	16,544	-	16,544
Federal Home Loan Bank stock	411	-	411	-	411
Loans held for sale	6,074	-	6,226	-	6,226
Loans, net (1)	148,579	-	-	152,294	152,294
Accrued interest receivable	605	-	605	-	605
Financial liabilities:					
Deposits	174,780	-	170,063	-	170,063
Borrowings	5,000		5,199		5,199

(1) Carrying amount is net of unearned income and the allowance for loan losses.

Note 16. Commitments and Contingencies

The Bank is required to maintain certain average reserve balances as established by the Federal Reserve Bank. The amounts of this reserve balance for the reserve computation period which was satisfied through the restriction of vault cash held at the Bank's branches. No additional reserves were required to be maintained at the Federal Reserve Bank of Richmond.

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans. These loans involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet.

Note 16. Commitments and Contingencies (Continued)

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of these instruments. The Bank uses the same credit policies for these instruments as it does for on-balance sheet instruments. At December 31, 2021 and 2020, the Bank had in other liabilities $45,000 of accrued credit losses related to these financial instruments with off-balance sheet risk.

The commitment to originate loans is an agreement to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require the payment of a fee. The Bank expects that a large majority of its commitments will be fulfilled subsequent to the balance sheet date and therefore, 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, is based on management's credit evaluation of the borrower.

Loan commitments representing off-balance sheet risk were as follows:

	December 31,	
	2021	**2020**
Commitments to extend credit		
Residential construction	$ 10,780,120	$ 9,845,921
Residential real estate	-	153,000
Commercial real estate and other construction	1,196,324	2,929,644
Commitments under available lines of credit		
Home equity lines of credit	4,908,999	4,619,267
Commercial lines of credit	1,574,943	1,210,001
Consumer lines of credit	586,627	330,435
Letters of credit	467,612	467,612
	$ 19,514,625	$ 19,555,880

In the normal course of business, the Bank sells loans in the secondary market. As is customary in such sales, the Bank provides indemnification to the buyer under certain circumstances. This indemnification may include the obligation to repurchase loans or refund fees by the Bank, under certain circumstances. In most cases, repurchases and losses are rare, and no provision is made for losses at the time of the sale. When repurchases and losses are probable and reasonably estimable, a provision is made in the financial statements for such estimated losses. There was no provision for losses from repurchases for December 31, 2021 and 2020.

Note 17. Subsequent Event

On January 28, 2022, CBM Bancorp and Rosedale Federal Savings & Loan Association ("Rosedale Federal") signed a definitive merger agreement pursuant to which Rosedale Federal will acquire CBM Bancorp in an all cash transaction for an aggregate purchase price of $64.4 million. Under the terms of the merger agreement, which as been approved unanimously by the board of directors of both entities, stockholders of CBM Bancorp will be entitled to receive $17.75 in cash for each share of CBM Bancorp common stock they own. The merger is expected to be consummated during the first half of 2022, after the satisfaction of customary closing conditions, including regulatory approvals and the approval of CBM Bancorp's stockholders.

CBMBancorp, Inc.

BOARD OF DIRECTORS

William J. Bocek, Jr.
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Chairman and Chief Executive Officer
of Chesapeake Bank of Maryland
Certified Public Accountant

Joseph M. Solomon
President of CBM Bancorp, Inc.
President and Managing Officer of
Chesapeake Bank of Maryland

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William W. Whitty, Jr.
Senior Vice President and Principal
Mackenzie Commercial Real Estate
Services, LLC

Gail E. Smith
Retired
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and Chief Operating Officer of
Chesapeake Bank of Maryland

Benny C. Walker
Retired
Former Principal of Weyrich,
Cronin, and Sorra
Certified Public Accountant

Glenn C. Ercole, Jr.
Principal with GCE Real Estate, LLC

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Chief Executive Officer of
Chesapeake Bank of Maryland

Joseph M. Solomon
President of CBM Bancorp, Inc.
President and Managing Officer of
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Jodi L. Beal, CPA
Executive Vice President
Chief Financial Officer of
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Chesapeake Bank of Maryland

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