CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

CATSKILL HUDSON BANCORP, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Catskill Hudson Bancorp, Inc.

Opinion

We have audited the accompanying financial statements of Catskill Hudson Bancorp, Inc. and subsidiary (a New York corporation), which comprise the consolidated statements of financial condition as of December 31, 2021, and the related consolidated statements of net income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catskill Hudson Bancorp, Inc. and subsidiary as of December 31, 2021, and the results of its consolidated operations and its consolidated 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 audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Catskill Hudson Bancorp, Inc. and subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of Catskill Hudson Bancorp, Inc. and subsidiary as of December 31, 2020 were audited by other auditors whose report dated April 30, 2021, expressed an unmodified opinion on those consolidated financial statements.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Catskill Hudson Bancorp Inc. and subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 Catskill Hudson Bancorp Inc. and subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Catskill Hudson Bancorp Inc. and subsidiary'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.

UHY LLP

Albany, New York
April 30, 2022

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2021 and 2020

(In Thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 44,973	$ 75,496
Certificates of deposit	-	28
Securities available for sale, at fair value	128,607	111,061
Securities held to maturity, at amortized cost	6,514	6,338
Loans, net of allowance for loan losses	381,913	361,564
Restricted investment in bank stocks	735	749
Premises and equipment, net	11,038	11,146
Bank-owned life insurance	1,931	1,906
Accrued interest receivable and other assets	3,284	3,044
Total assets	$ 578,995	$ 571,332
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Interest bearing	$ 428,514	$ 429,955
Noninterest bearing	106,802	99,571
Total deposits	535,316	529,526
Subordinated debentures	12,060	10,867
Junior subordinated debentures	3,299	3,299
Accrued expenses and other liabilities	971	808
Total liabilities	551,646	544,500
STOCKHOLDERS' EQUITY		
Common stock	711	711
Treasury stock (8,416 shares at December 31, 2021 and 2020)	(152)	(152)
Additional paid-in capital	7,348	7,348
Retained earnings	19,252	18,046
Accumulated other comprehensive income	190	879
Total stockholders' equity	27,349	26,832
Total liabilities and stockholders' equity	$ 578,995	$ 571,332

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF NET INCOME

Years Ended December 31, 2021 and 2020

(In Thousands, Except Per Share Data)

	2021	2020
Interest income:		
Loans	$ 14,559	$ 14,606
Securities:		
Taxable	456	886
Tax-exempt	448	504
Other	40	173
Total interest and dividend income	15,503	16,169
Interest expense:		
Deposits	1,424	2,907
Borrowings	830	880
Total interest expense	2,254	3,787
Net interest income	13,249	12,382
Provision for loan losses	338	675
Net interest income, after provision for loan losses	12,911	11,707
Noninterest income:		
Service fees	844	821
Net realized gains on sales of securities available for sale	-	427
Other	1,155	651
Total noninterest income	1,999	1,899
Noninterest expenses:		
Salaries and employee benefits	7,123	6,453
Occupancy	1,732	1,721
Depreciation and amortization of premises and equipment	627	634
Data processing fees	680	734
Stationary, supplies and printing	183	242
Professional fees	404	361
FDIC insurance	328	323
Other operating expenses	2,042	1,847
Total operating expenses	13,119	12,315
Income before income tax expense	1,791	1,291
Income tax expense	269	157
Net income	$ 1,522	$ 1,134
Earnings per common share		
Basic and diluted	$ 2.17	$ 1.61

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2021 and 2020

(In Thousands)

	2021	2020
Net income	$ 1,522	$ 1,134
Other comprehensive income:		
Securities available-for-sale:		
Unrealized (losses) gains arising during the year	(872)	1,699
Reclassification adjustment for gains realized in income (1)	-	(427)
	(872)	1,272
Tax effects	183	(269)
Other comprehensive (loss) income	(689)	1,003
Comprehensive income	$ 833	$ 2,137

(1) Amounts are reclassified out of accumulated other comprehensive income/loss and included in net realized gains on sales of securities available for sale in the consolidated statements of net income. The Bank did not sell any securities in 2021. The related income tax expense for the year ended December 31, 2020 amounted to $90,000.

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2021 and 2020

(In Thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	$ 711	$ (152)	$ 7,348	$ 17,221	$ (124)	$ 25,004
Comprehensive income	-	-	-	1,134	1,003	2,137
Common stock dividends declared, $0.44 per share	-	-	-	(309)	-	(309)
Common stock issued	-	-	-	-	-	-
Balance at December 31, 2020	711	(152)	7,348	18,046	879	26,832
Comprehensive income	-	-	-	1,522	(689)	833
Common stock dividends declared, $0.45 per share	-	-	-	(316)	-	(316)
Balance at December 31, 2021	$ 711	$ (152)	$ 7,348	$ 19,252	$ 190	$ 27,349

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

(In Thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,522	$ 1,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	338	675
Depreciation and amortization	818	680
Net realized gains on sales of securities available for sale	-	(427)
Net amortization of securities	344	269
Bank-owned life insurance income	(25)	(29)
Deferred income tax expense	410	280
Net change in:		
Accrued interest receivable and other assets	(476)	(1,154)
Accrued expenses and other liabilities	163	74
Net cash provided by operating activities	3,094	1,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale activity:		
Purchases	(811,250)	(629,236)
Proceeds from sales	792,500	40,203
Proceeds from maturities and principal repayments	28	604,351
Securities held-to-maturing activity:		
Purchases	(2,046)	(1,683)
Proceeds from maturities and principal repayments	1,859	1,206
Loan originations, net of principal payments	(20,687)	(35,330)
Proceeds (purchases) of restricted investment in bank stock	14	(33)
Purchases of premise and equipment	(560)	(1,927)
Proceeds from sale of Other Real Estate Owned	-	59
Net cash used in investing activities	(40,142)	(22,390)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	5,790	66,253
Payment made on subordinated debt agreement	(11,000)	-
Net proceeds from new subordinated debt agreement	12,051	-
Common stock dividends paid	(316)	(309)
Net cash provided by financing activities	6,525	65,944
Net (decrease) increase in cash and cash equivalents	(30,523)	45,056
Cash and cash equivalents, beginning of year	75,496	30,440
Cash and cash equivalents, end of year	$ 44,973	$ 75,496
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 2,371	$ 3,877
Income taxes paid	$ 50	$ 9

See notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Catskill Hudson Bancorp, Inc. (the “Company”) provides a full range of commercial banking services through its wholly-owned subsidiary, Catskill Hudson Bank (the “Bank”). The Bank’s operations are conducted in thirteen locations located in the New York counties of Sullivan, Orange, Ulster, Albany and Saratoga. The Bank is regulated by the Federal Deposit Insurance Corporation and the New York State Department of Financial Services. The Company is regulated by the Federal Reserve Bank of New York.

The Company also has another wholly-owned subsidiary, Catskill Hudson Statutory Trust I (“Trust I”). Trust I was formed for the purpose of issuing trust preferred securities, the proceeds of which were advanced to the Company and contributed to the Bank as additional capital.

The Bank has a wholly-owned subsidiary, IT Services CHB, LLC (“ITS CHB”). ITS CHB was formed as a wholly-owned operating subsidiary, and will be used if and when the bank moves forward with subsidiary operations.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accounts of Trust I are not included in the consolidated financial statements as discussed in Note 9.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 in the near term relate to the determination of the allowance for loan losses and the realizability of deferred income tax assets.

Fair Value Hierarchy

The Company groups its assets that are measured at fair value in three levels, based on the markets in which the assets are traded, and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Hierarchy (Continued)

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

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities not classified as held-to-maturity are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of the related deferred income tax effect.

Purchase premiums and discounts are recognized in interest income using methods that approximate the interest method. Purchase premiums on callable debt securities are amortized to the first call date while all other premiums and discounts are amortized over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method.

Declines in fair value of securities below their amortized cost that are deemed to be other-than-temporary are separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. 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, (3) the intent and ability of the Company to retain its investment in the issuer for a reasonable period of time sufficient to allow for any anticipated recovery in fair value, (4) whether it is likely the Company intends to sell or will have to sell the security prior to recovery, and (5) whether the change in fair value is due to a deterioration in the credit quality of the issuer or is due to non-credit related market conditions. There were no other-than-temporary impairment losses during 2021 or 2020.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses, charge-offs and any deferred origination fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan using the effective yield method. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and commercial real estate. Consumer loans consist of the following classes: residential mortgage, installment, home equity, and other consumer.

Commercial lending, including commercial real estate loans, generally present a higher level of risk than residential mortgage loans. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project or business. If the cash flow from the project is reduced, the borrower’s ability to repay the loan may be impaired.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through the provision for loan losses charged to earnings. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, adjusted for known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, 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 revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans, grouped by loan class, not considered impaired. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans adjusted by qualitative factors, as deemed appropriate. These qualitative risk factors encompass:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
- National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
- Nature and volume of the portfolio and terms of loans.
- Experience, ability, and depth of lending management and staff.
- Volume and severity of past due, classified and nonaccrual loans as well as loan modifications.
- Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
- Existence and effect of any concentrations of credit and changes in the level of such concentrations.
- Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is incorporated as part of qualitative adjustments to the allowance based on management's best judgment using relevant information available at the time of the evaluation. The qualitative adjustments are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging's or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. In addition, this segment includes loans issued under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). These loans are guaranteed and are not allocated a general reserve because the Company has not experienced losses on such loans and management expects the guarantees will be effective, if necessary.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, installment loans, home equity loans, and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement ("TDR").

Loans whose terms are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date at a below market interest rate based on the credit risk associated with the loan. Non-accrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as TDRs are designated as impaired.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

On an annual basis, the Company formally reviews the ratings on substantially all commercial loans through the use of an independent third-party. Management uses the result of these reviews as part of its annual review process. In addition, management utilizes delinquency reports, the watch list, and other loan reports to monitor credit quality of other loan classes.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgements about information available to them at the time of their examination. Based on management's comprehensive analysis of the loan portfolio, management believes the allowance for loan losses at December 31, 2021 is adequate.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank ("FHLB") and Atlantic Community Bancshares, Inc. ("ACBI").

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization, which is calculated using the straight-line method over the estimated useful lives of the assets. In the case of leasehold improvements, amortization is recorded over the shorter of the lease term or the estimated useful life of the related assets, as follows:

	Years
Buildings and leasehold improvements	10 – 39
Furniture, fixtures and equipment	3 – 7
Software	3 – 7

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis that was established at the time of foreclosure or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The Company has no foreclosed real estate at December 31, 2021 and December 31, 2020. Foreclosed assets are included in accrued interest receivable and other assets in the consolidated statements of financial condition.

Bank-Owned Life Insurance

Bank-owned life insurance policies are reflected at the cash surrender value of the underlying policies on the consolidated statements of financial condition. Income from the increase in the cash surrender value of the policies is included with other operating income on the consolidated statements of net income and are not subject to income taxes.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising costs, included in other operating expenses, totaled $52,000 and $44,000 for years ended December 31, 2021 and 2020, respectively.

Income Taxes

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Changes in tax rates and laws are recognized in the period in which they are enacted.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for income taxes in accordance with current income tax accounting guidance for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense. There were no interest or penalties recorded during the years ending December 31, 2021 and 2020. Tax years subject to examination by tax authorities are the years ended December 31, 2021, 2020 and 2019.

Earnings Per Share

Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect 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. Potential common shares relate to restricted stock awards and are determined using the treasury method.

Earnings per common share have been computed based on the following as of December 31:

	2021	2020
Net income applicable to common stock	$ 1,522,000	$ 1,134,000
Average number of common shares outstanding	702,374	702,584
Basic and diluted earnings per share	$2.17	$1.61

Dilutive shares consist solely of restricted stock granted, which were immaterial during the years ended December 31, 2021 and 2020.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Reclassifications

Certain amounts appearing in the prior years' consolidated financial statements may have been reclassified to conform with the current year's presentation. These reclassifications, if any, did not have any impact on stockholders' equity or net income.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition. Such items along with net income are components of comprehensive income.

Recent Accounting Pronouncements

In February 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. This ASU requires companies that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. This ASU, as amended, is effective for the Company for fiscal years beginning after December 15, 2021. Management is currently evaluating the impact to the consolidated financial statements of adopting this ASU; however, based on future minimum rent commitments at December 31, 2021, the impact would not be material to the consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for certain financial assets, such as loans, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU, as amended, is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Management is currently evaluating the impact to the consolidated financial statements of adopting this ASU. Although no financial statement impacts have been calculated, the adoption of this ASU is expected to significantly change the approach management uses in calculating the allowance for loan losses.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This Update provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as Secured Overnight Financing Rate ("SOFR"). The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact this Update will have on its consolidated financial statements, however, there were no immediate impacts upon adoption.

NOTE 2 — CASH AND CASH EQUIVALENTS

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. Effective March 26, 2020, the reserve requirement ratio was reduced to zero percent. The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

NOTE 3 — INVESTMENT SECURITIES

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

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Treasuries	$ 59,998	$ -	$ -	$ 59,998
Government-sponsored enterprise bonds	20,230	-	243	19,987
Government-sponsored mortgage-backed securities	19,739	232	89	19,882
State and local municipal bonds	28,399	371	30	28,740
Total securities available-for-sale	$ 128,366	$ 603	$ 362	$ 128,607
Held-to-maturity:				
State and local municipal bonds	$ 6,514	$ 55	$ -	$ 6,569

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. treasuries	$ 71,997	$ 1	$ -	$ 71,998
Government-sponsored enterprise bonds	-	-	-	-
Government-sponsored mortgage-backed securities	21,242	624	-	21,866
State and local municipal bonds	16,707	490	-	17,197
Total securities available-for-sale	$ 109,946	$ 1,115	$ -	$ 111,061
Held-to-maturity:				
State and local municipal bonds	$ 6,338	$ 65	$ -	$ 6,403

NOTE 3 — INVESTMENT SECURITIES (Continued)

The following tables set forth the Company's investment in securities with unrealized losses of less than twelve months and unrealized losses of twelve months or more at December 31, 2021:

	Less Than Twelve Months		Over Twelve Months		Total	
December 31, 2021:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(In Thousands)			
Available-for-sale:						
Government-sponsored mortgage-backed securities	$ (243)	$ 19,987	$ -	$ -	$ (243)	$ 19,987
Government-sponsored enterprise bonds	(89)	6,214	-	-	(89)	6,214
State and local municipal bonds	(30)	14,304	-	-	(30)	14,304
	$ (362)	$ 34,291	$ -	$ -	$ (362)	$ 40,505
Held-to-maturity:						
State and local municipal bonds	$ -	$ -	$ -	$ 1,599	$ -	$ 1,599

There were no securities with an unrealized loss of 12 months or more at December 31, 2021. The total number of securities with an unrealized loss of less than 12 months was 49 at December 31, 2021.

Unrealized losses on these securities have not been recognized into earnings because the issuers of the securities are of high quality, management has the ability and intent to hold these securities for the foreseeable future and does not believe they will have to sell the securities or be required to sell the securities, and the declines in fair value are principally due to market interest rates and not the result of credit risk. The fair values of these securities are expected to recover as they approach maturity and/or market interest rates fluctuate.

There were no securities in an unrealized loss position at December 31, 2020.

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

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In Thousands)		
Within 1 year	$ 73,082	$ 73,080	$ 1,816	$ 1,816
Over 1 year through 5 years	25,564	25,349	569	569
Over 5 years through 10 years	4,035	4,100	3,007	3,025
Over 10 years	25,685	26,078	1,122	1,159
	$ 128,366	$ 128,607	$ 6,514	$ 6,569

NOTE 3 — INVESTMENT SECURITIES (Continued)

Debt securities with a carrying value of $117,735,910 and $105,077,000 were pledged to secure public deposits at December 31, 2021 and 2020, respectively. Proceeds from sales of securities available for sale during 2021 and 2020 were $0 and $40,203,000, respectively. Gross realized gains on securities available for sale that were sold during 2021 and 2020 totaled $0 and $453,000, respectively. Gross realized losses on securities available for sale that were sold during 2021 and 2020 totaled $0 and $26,000, respectively.

NOTE 4 — LOANS

Loans consist of the following at December 31, 2021 and 2020:

	December 31,	
	2021	**2020**
	(In Thousands)	
Commercial loans:		
Commercial	$ 29,153	$ 39,336
Commercial real estate	268,047	269,258
Consumer loans:		
Residential mortgage	83,094	49,524
Installment	194	375
Home equity	2,705	3,842
Other consumer	45	94
	383,238	362,429
Allowance for loan losses	(2,672)	(2,171)
Net deferred loan costs	1,347	1,306
	$ 381,913	$ 361,564

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 8(a) loan program called the PPP.

Although we were not already a qualified SBA lender, we enrolled in the PPP by completing the required documentation.

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly “payroll costs;” or (2) $10.0 million. PPP loans will have: (a) an interest rate of 1.0%; (b) a two or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Company or 10 months from the end of the covered period, as defined. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower’s PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses. As of December 31, 2021, the Company had $1,244,000 of PPP loans outstanding, compared to $5,600,000 as of December 31, 2020.

NOTE 4 — LOANS (Continued)

Pursuant to Section 4013 of the CARES Act, financial institutions can suspend the requirements under U.S. GAAP related to TDRs for modifications made before December 31, 2021 to loans that were current as of December 31, 2019.

As of December 31, 2021, the Bank had 0 loans remaining on deferment. As of December 31, 2020, the Bank had modified 131 loans aggregating $120,336,000 that were not considered troubled debt restructurings, primarily consisting of the deferral of principal and/or interest payments. These loans are evaluated for impairment and non-accrual status in accordance with the Company's current policies.

The following tables present the classes of the loan portfolio summarized by credit rating within the Company's internal risk rating system as of December 31, 2021 and 2020:

December 31, 2021	Pass	Special Mention	Substandard (In Thousands)	Doubtful	Total
Commercial	$ 29,280	$ -	$ 613	$ -	$ 29,893
Commercial real estate	251,362	12,050	3,895	-	267,307
Residential mortgage	83,075		19	-	83,094
Installment	194	-	-	-	194
Home equity	2,705	-	-	-	2,705
Other consumer	45	-	-	-	45
	$ 366,661	$ 12,050	$ 4,527	$ -	$ 383,238

December 31, 2020	Pass	Special Mention	Substandard (In Thousands)	Doubtful	Total
Commercial	$ 38,657	$ -	$ 679	$ -	$ 39,336
Commercial real estate	253,649	10,592	5,017	-	269,258
Residential mortgage	49,213	23	288	-	49,524
Installment	375	-	-	-	375
Home equity	3,842	-	-	-	3,842
Other consumer	94	-	-	-	94
	$ 345,830	$ 10,615	$ 5,984	$ -	$ 362,429

NOTE 4 — LOANS (Continued)

The following tables summarize information in regards to impaired loans, by loan portfolio class, at and 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
			(In Thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -		$ -
Commercial real estate	2,709	2,709	-	2,806	124
Residential mortgage	87	87	-	87	3
Home equity	146	146	-	152	9
With an allowance recorded:					
Commercial	$ 534	$ 534	$ 400	$ 546	$ -
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Total:					
Commercial	$ 534	$ 534	$ 400	$ 609	$ -
Commercial real estate	2,709	2,709	-	2,518	124
Residential mortgage	87	87	-	44	3
Home equity	146	146	-	193	9

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no related allowance recorded:					
Commercial	$ 125	$ 125	$ -	$ 31	$ -
Commercial real estate	2,930	2,930	-	2,518	165
Residential mortgage	89	89	-	44	1
Home equity	161	161	-	193	10
With an allowance recorded:					
Commercial	$ 566	$ 566	$ 400	$ 578	$ -
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Total:					
Commercial	$ 691	$ 691	$ 400	$ 609	$ -
Commercial real estate	2,930	2,930	-	2,518	165
Residential mortgage	89	89	-	44	1
Home equity	161	161	-	193	10

NOTE 4 — LOANS (Continued)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2021 and 2020:

	2021	2020
	(In Thousands)	
Commercial	$ 534	$ 566
Commercial real estate	740	970
Residential mortgage	-	-
	$ 1,274	$ 1,536

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2021 and 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days Past Due and Accruing
				(In Thousands)			
December 31, 2021							
Commercial	$ -	$ -	$ -	$ -	$ 29,153	$ 29,153	$ -
Commercial real estate	-	-	-	-	268,047	268,047	-
Residential mortgage	-	-	-	-	83,094	83,094	-
Installment	-	-	-	-	194	194	-
Home equity	-	-	-	-	2,705	2,705	-
Other consumer	-	-	-	-	45	45	-
	$ -	$ -	$ -	$ -	$ 383,238	$ 383,238	$ -

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days Past Due and Accruing
				(In Thousands)			
December 31, 2020							
Commercial	$ -	$ -	$ -	$ -	$ 39,336	$ 39,336	$ -
Commercial real estate	-	-	970	970	268,288	269,258	-
Residential mortgage	-	-	-	-	49,524	49,524	-
Installment	-	-	-	-	375	375	-
Home equity	-	-	-	-	3,842	3,842	-
Other consumer	-	-	-	-	94	94	-
	$ -	$ -	$ 970	$ 970	$ 361,459	$ 362,429	$ -

NOTE 4 — LOANS (Continued)

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2021 and 2020 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2021 and 2020:

	Allowance for Loan Losses						
	Beginning Balance	Charge Offs	Recoveries	Provision (Credit)	Ending Balance	Ending Balance Impaired Loans	Ending Balance Non-impaired Loans
				(In Thousands)			
December 31, 2021							
Commercial	$ 642	$ (126)	$ 169	$ (89)	$ 596	$ 400	$ 196
Commercial real estate	1,257	-	176	(198)	1,235	-	1,235
Residential mortgage	207	(54)	8	208	369	-	369
Installment	4	(1)	4	(5)	2	-	2
Home equity	15	-		(4)	11	-	11
Other consumer	3	(14)		12	1	-	1
Unallocated	43	-	-	414	457	-	457
	$ 2,171	$ (195)	$ 357	$ 338	$ 2,671	$ 400	$ 2,271

	Allowance for Loan Losses						
	Beginning Balance	Charge Offs	Recoveries	Provision (Credit)	Ending Balance	Ending Balance Impaired Loans	Ending Balance Non-impaired Loans
				(In Thousands)			
December 31, 2020							
Commercial	$ 607	$ (782)	$ 4	$ 813	$ 642	$ 400	$ 242
Commercial real estate	1,165	-	2	90	1,257	-	1,257
Residential mortgage	91	-	25	91	207	-	207
Installment	13	(5)	1	(5)	4	-	4
Home equity	30	-	50	(65)	15	-	15
Other consumer	6	(7)	1	3	3	-	3
Unallocated	295	-	-	(252)	43	-	43
	$ 2,207	$ (794)	$ 83	$ 675	$ 2,171	$ 400	$ 1,771

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

NOTE 4 — LOANS (Continued)

The following table provides information with respect to our commercial and commercial real estate loans by industry, excluding PPP loans, at December 31, 2021.

Industry	Number of Loans	Balance *(Dollars in thousands)*
Industrial/manufacturing	11	$ 3,532
Lessors residential	74	61,958
Lessors non-residential	88	105,933
Hospitality	25	50,944
Restaurant/food service	26	9,185
Other	201	64,374
	425	$ 295,926

There were no loans modified under TDRs during the year ended December 31, 2021. The following table shows loans whose terms have been modified under TDRs during the year ended December 31, 2020.

December 31, 2020	Number of Contacts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
		(Dollars in thousands)	
Commercial real estate	1	$ 182	$ 189
Residential real estate	1	55	89

The loans modified in 2020 did not include capitalization of past due amounts or interest.

There were no defaults during the years ended December 31, 2021 and 2020 for TDRs within 12 months of the restructuring.

NOTE 5 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consist of the following at December 31, 2021 and 2020:

	December 31,	
	2021	2020
	(In Thousands)	
Building	$ 4,527	$ 4,437
Data processing equipment	3,577	3,370
Office and other equipment	2,557	2,409
Leasehold improvements	1,445	1,384
Land	5,214	5,165
	17,320	16,765
Accumulated depreciation and amortization	(6,282)	(5,619)
	$ 11,038	$ 11,146

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 amounted to $668,000 and $634,000, respectively.

At December 31, 2021, the Company leased branch facilities and its corporate office under noncancelable operating leases. Future minimum rental payments under these leases are as follows:

Year Ending December 31, *(In Thousands)*	
2022	$ 859
2023	740
2024	335
2025	250
2026	242
Thereafter	264
	$ 2,690

The leases contain options to extend for periods of three to five years, the cost of which is not included above. Rent expense under the operating leases totaled $887,000 in 2021 and $919,000 in 2020.

NOTE 6 — DEPOSITS

Time deposits in denominations of $250,000 and over were $25,502,000 and $30,074,000 at December 31, 2021 and 2020 respectively.

The aggregate amounts of demand deposit overdrafts that were reclassified as loans were $16,000 and $59,000 as of December 31, 2021 and 2020, respectively.

NOTE 6 — DEPOSITS (Continued)

At December 31, 2021, scheduled maturities of time deposits are as follows (In Thousands):

Year Ending December 31,	
2022	$ 63,461
2023	11,075
2024	3,513
2025	2,663
2026	539
	$ 81,251

NOTE 7 — BORROWINGS

The Bank has a $3,500,000 overnight line of credit with a correspondent bank. The line bears interest at the federal funds rate in effect at the time of the borrowing plus 0.375%. The terms of the line require the Bank to identify and segregate in a separate account specific securities pledged as collateral for any amounts borrowed over $1,500,000. The collateral must consist of securities with a market value of at least 125% of borrowings in excess of the unsecured limit. There were no borrowings on the line at December 31, 2021 and 2020.

The Bank also has three unsecured federal funds overnight lines of credit with three correspondent banks. The lines bear interest at the federal funds rate. The maximum available credit is $6,000,000, $3,000,000, and $5,000,000 for each of the lines. There were no borrowings on any of the lines at December 31, 2021 and 2020.

The Company has a borrowing agreement with the FHLB of New York with an available funding capacity for overnight advances of $285,803,000 as of December 31, 2021. This limit is restricted by the Company's ability to provide eligible collateral to support its obligations to the FHLB as well as the ability to meet the FHLB's stock purchase requirement. Advances from the FHLB are collateralized by a blanket lien against the Company's qualifying assets with variable interest rates in effect at the FHLB.

NOTE 8 — SUBORDINATED DEBENTURES

The Company issued $11,000,000 in subordinated debentures on October 28, 2016. The debentures bear interest at a fixed rate of 7.25%. Interest is payable quarterly. The cost of issuing subordinated debt is approximately $228,000 which was amortized over the life of the debt. The debentures mature on October 28, 2026. The debentures may be redeemed in whole or in part on or after October 28, 2021 at 100% of the principal amount plus accrued interest.

On October 21, 2022, the Company issued $12,300,000 in subordinated debentures. The debentures bear interest at a fixed rate of 4.25%. Interest is payable quarterly. Beginning December 31, 2026 interest will be equal to the three-month term SOFR conventions floating interest rate plus 325 basis points. The cost of issuing subordinated debt was approximately $249,000 which is amortized over the life of the debt. The debentures mature on October 21, 2031. The debentures may be redeemed in whole or in part on or after October 21, 2027 at 100% of the principal amount plus accrued interest.

NOTE 8 — SUBORDINATED DEBENTURES (Continued)

On November 1, 2021, the Company utilized the funds from the new 2021 subordinated debt agreement to take the option and redeem the previous subordinated debt agreement in full. A wire payment in the amount of $11,066,458 was made on November 1, 2021 to EJF Debt Opportunities Master Fund, LP which included the principal amount of $11,000,000 plus accrued, unpaid interest and fees of $66,458.

NOTE 9 — JUNIOR SUBORDINATED DEBENTURES

The Company issued $3,299,000 in junior subordinated debentures on October 13, 2006 that are due December 15, 2036, to Trust I. The Company owns all of the $99,000 in common equity of the trust and the debentures are the sole asset of the trust. The trust issued $3,200,000 of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable coupon rate based on three-month LIBOR plus 1.75%. The interest rate was 1.87% and 1.97% at December 31, 2021 and 2020, respectively. The securities are callable by the Company, subject to regulatory approval, at par. The Company unconditionally guarantees the trust capital securities. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the trust. The Company used the net proceeds from this offering to fund an additional $3,200,000 capital investment in the Bank to fund its operations and future growth.

The accounts of Trust I are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier 1 capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier 2 capital. At December 31, 2021 and 2020, all of the Company's trust capital securities qualified as Tier 1 capital.

NOTE 10 — STOCKHOLDERS' EQUITY

Common stock of the Company is as follows at December 31, 2021 and 2020:

	2021	2020
Authorized shares, $1.00 par value	1,000,000	1,000,000
Issued shares	711,000	711,000
Outstanding shares	702,284	702,584

In April 2021, 300 shares previously issued but unvested were forfeited back to the Company. The restricted stock vests three years from the date of issuance. No restricted stock was issued in 2021.

NOTE 11 — RETIREMENT PLANS

The Bank has a 401(k) defined contribution retirement plan covering substantially all of its employees as they become eligible. Discretionary employer matching contributions to the plan are allowed under the plan. Matching contributions totaled $121,000 and $114,000 for 2021 and 2020, respectively. Additional contributions to the plan are permitted based on management's discretion.

NOTE 12 — INCOME TAXES

Income tax expense (benefit) in the consolidated statements of net income are comprised of:

	2021	2020
	(In Thousands)	
Current	$ 449	$ (123)
Deferred	(180)	280
	$ 269	$ 157

The provision for income taxes differs from that computed by applying statutory rates to income before income taxes primarily due to the effects of tax-exempt income and state taxes.

Deferred income tax assets and liabilities, included in accrued interest receivable and other assets in the consolidated statements of financial condition, resulting from temporary differences are summarized as follows:

	2021	2020
	(In Thousands)	
Deferred tax assets:		
Allowance for loan loss over tax bad debt reserve	$ 258	$ 27
Non-accrual interest	31	13
Premises and equipment	31	-
Core deposit premium	17	15
Total deferred tax asset	337	55
Deferred tax liabilities:		
Premises and equipment	(223)	(144)
Deferred loan costs	(321)	(274)
Available for sale securities	(51)	(234)
Total deferred tax liabilities	(595)	(652)
Net deferred tax liability	$ (258)	$ (597)

A valuation allowance is required against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period. As New York State (“NYS”) tax law provides for permanent deduction of income from “qualified” loans for community banks, management determined that the Company would most likely not pay NYS income tax. Accordingly the Company is not recording a state deferred taxes.

The Company did not have any uncertain tax positions at December 31, 2021 and 2020.

NOTE 13 — RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has, and expects to continue to have, transactions, including loans and deposit accounts, with the Company's and the Bank's executive officers and directors, and their affiliates. The aggregate amount of loans to such related parties at December 31, 2021 and 2020 was $3,624,000 and $4,754,000, respectively. During 2021, there were $350,000 in new loans to such related parties, net advances on existing lines of credit decreased by $78,000 and repayments amounted to $1,768,000. During 2020, there were $1,162,000 in new loans to such related parties, net advances on existing loans decreased $1,906,000, and repayments amounted to $513,000.

The Bank held deposits of $16,855,910 and $15,273,000 for related parties at December 31, 2021 and 2020, respectively.

NOTE 14 — OTHER COMMITMENTS AND CONTINGENCIES

The Bank is a 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 extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments summarized as follows at December 31, 2021 and 2020:

	2021	2020
	(In Thousands)	
Commitments to extended credit:		
Commitments to grant loans	$ 35,360	$ 20,548
Unadvanced commercial lines of credit	22,441	27,587
Unadvanced consumer lines of credit	3,439	3,273
Standby letters of credit	2,167	3,589

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

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

NOTE 14 — OTHER COMMITMENTS AND CONTINGENCIES (Continued)

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Generally, letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank generally holds collateral supporting those commitments. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2021 and 2020.

The terms of the Subordinated Debentures discussed in Note 8 and the Junior Subordinated Debentures discussed in Note 9 contain certain covenants. Management believes the Company has complied with all covenants during 2021 and 2020.

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 15 — CONCENTRATIONS OF CREDIT

Most of the Bank's business activity is with customers in the Bank's market area. The majority of those customers are depositors of the Bank. Investments in state and local government securities also involve governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit is set forth in Note 14. The Bank, as matter of policy, does not extend credit to any single borrower, or group of related borrowers in excess of its legal lending limit.

NOTE 16 — REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt correction action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Regulations require minimum ratios of total capital, common equity Tier 1 capital, Tier 1 capital to risk-weighted assets and a minimum leverage ratio for all banking organizations, as set forth in the following table. Additionally, community banking institutions must maintain a capital conservation buffer in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

NOTE 16 — REGULATORY MATTERS (Continued)

As of December 31, 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized an institution must maintain capital ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes, as of December 31, 2021 and 2020, that the Bank met all capital adequacy requirements to which they are subject. In addition, the Bank exceeds the required 2.50% capital conservation buffer at December 31, 2021. The Bank's actual capital amounts and ratios as of December 31, 2021 and 2020 are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2021						
Total capital (to risk weighted assets)	$44,766	12.23%	$29,270	8%	$36,588	10%
Tier 1 capital (to risk weighted assets)	$42,296	11.50%	$21,953	6%	$29,270	8%
Common equity Tier 1 capital (to risk weighted assets)	$42,296	11.50%	$16,465	4.50%	$23,782	6.50%
Tier 1 capital (to average assets)	$42,296	6.95%	$24,227	4%	$30,284	5%
December 31, 2020						
Total capital (to risk weighted assets)	$41,365	11.36%	$29,137	8%	$36,421	10%
Tier 1 (to risk weighted assets)	$39,194	10.76%	$21,853	6%	$29,137	8%
Common equity Tier 1 capital (to risk weighted assets)	$39,194	10.76%	$16,389	4.50%	$23,674	6.50%
Tier 1 capital (to average assets)	$39,194	6.67%	$23,518	4%	$29,398	5%

NOTE 17 — FAIR VALUE MEASUREMENTS

Determination of fair values

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various assets and liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

NOTE 17 — FAIR VALUE MEASUREMENTS (Continued)

Determination of fair values *(continued)*

The following methods were used by the Company in estimating the fair value of assets measured at fair value:

Securities available for sale: All fair value measurements are obtained from a third-party pricing service and are not adjusted by management. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

Impaired loans: Fair value is based upon independent third-party appraisals of the properties.

Assets measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis at December 31, 2021 and 2020 are summarized below:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
	(In Thousands)			
Securities available for sale	$ -	$ 128,607	$ -	$ 128,607

	December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value
	(In Thousands)			
Securities available for sale	$ -	$ 111,061	$ -	$ 111,061

There were no liabilities measured at fair value on a recurring basis at December 31, 2021 or 2020.

Assets measured at fair value on a non-recurring basis

The Bank may also be required, from time to time, to measure certain other assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following tables summarize the fair value hierarchy used to determine each adjustment and the carrying value of the related assets as of December 31, 2021 and 2020.

NOTE 17 — FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a non-recurring basis *(continued)*

	December 31, 2021				Year Ended December 31, 2021
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
		(In Thousands)			
Impaired loans	$ -	$ -	$ 134	$ 134	$ -

	December 31, 2020				Year Ended December 31, 2020
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
		(In Thousands)			
Impaired loans	$ -	$ -	$ 166	$ 166	$ -

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2021 and 2020.

NOTE 18 — RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Actions taken domestically and across the world to help mitigate the spread of the coronavirus included and continue to include restrictions on travel, required quarantine, and mandated closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to have an adverse impact on the economies and financial markets of the geographical area in which the Company operates. On March 27, 2020, the CARES Act was enacted amongst other provisions to provide emergency assistance to individuals, families, and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus pandemic will last and what the complete financial effect will be to the Company. In addition to the negative impact of the coronavirus on the general economy, it is reasonably probable that the Company and its customers are vulnerable to the risk of a near-term severe impact. It is also reasonably probable that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. The following areas of the financial statements could be adversely impacted:

- Net interest income: In accordance with current regulatory guidance, the Company is working with its borrowers impacted by the coronavirus pandemic by deferring loan payments. The Company is recognizing interest income on these loans in accordance with generally accepted accounting principles where judgment is required to determine whether to continue to accrue interest or put the loan on non-accrual. These loans could eventually default, which could result in the reversal of any related accrued interest income against interest income.

NOTE 18 — RISKS AND UNCERTAINTIES (Continued)

- Provision for loan losses: Depending on the severity and duration of the pandemic, asset quality could deteriorate and loan losses could increase, resulting in an increase in the provision for loan losses.

- Securities impairment: Depending on the severity and duration of the pandemic and its impact on the issuers of the Company's securities, asset quality could deteriorate which could result in other-than-temporary impairment of certain securities, which could result in impairment losses.

NOTE 19 — SUBSEQUENT EVENTS

The Company evaluated the impact of subsequent events through April 30, 2022, representing the date at which the consolidated financial statements were available to be issued. There were no subsequent events which require adjustments to or disclosure in the consolidated financial statements.