Bank of Bird-in-Hand

Bird-in-Hand, Pennsylvania

Financial Statements

December 31, 2021

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Contents

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bank of Bird-in-Hand
Bird-in-Hand, Pennsylvania

Opinion

We have audited the accompanying financial statements of Bank of Bird-in-Hand (the "Bank"), which comprise the balance sheets as of December 31, 2021 and 2020; the related statements of operations, shareholders' equity, and cash flows for the years then ended; and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

S.R. Snodgrass P.C.

Cranberry Township, Pennsylvania
March 31, 2022

BANK OF BIRD-IN-HAND
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(in thousands, except share and per-share data)

	2021	2020
ASSETS		
Cash and due from banks	$ 6,479	$ 9,054
Interest-bearing deposits with other banks	59,266	67,503
Total cash and cash equivalents	65,745	76,557
Investment securities held to maturity, at amortized cost	1,000	-
Loans receivable, net of allowance for loan losses of $5,661 at December 31, 2021, and $4,291 at December 31, 2020	703,257	487,657
Bank premises and equipment, net	8,685	2,490
Accrued interest receivable	2,017	1,647
Restricted investment in bank stock	3,813	756
Bank owned life insurance	10,680	10,407
Other assets	685	714
TOTAL ASSETS	$ 795,882	$ 580,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 76,662	$ 60,698
Interest-bearing demand	448,595	373,416
Time deposits	68,778	53,962
Total deposits	594,035	488,076
FHLB advances	87,000	12,000
Accrued interest payable	46	47
Capital lease obligation	5,130	-
Other liabilities	1,576	1,223
TOTAL LIABILITIES	687,787	501,346
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value, 2,000,000 shares authorized, and no outstanding shares at December 31, 2021 and 2020.	-	-
Common stock, $1.00 par value, 50,000,000 shares authorized, and 7,213,872 and 6,113,166 shares issued and outstanding at December 31, 2021 and 2020, respectively.	7,214	6,113
Additional paid-in capital	88,114	64,205
Accumulated earnings	12,767	8,564
TOTAL SHAREHOLDERS' EQUITY	108,095	78,882
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 795,882	$ 580,228

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF OPERATIONS
DECEMBER 31, 2021 AND 2020
(in thousands, except share data)

	2021	2020
INTEREST INCOME		
Loans, including fees	$ 20,847	$ 17,629
Federal funds sold and other	116	224
Total interest income	20,963	17,853
INTEREST EXPENSE		
Deposits	2,252	4,288
Borrowings	223	15
Total interest expense	2,475	4,303
NET INTEREST INCOME	18,488	13,550
Provision for loan losses	1,372	877
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,116	12,673
OTHER INCOME		
Service fees	903	768
ATM and debit card fees	390	263
Earnings on bank-owned life insurance	272	164
Other	62	58
Total other income	1,627	1,253
NONINTEREST EXPENSES		
Salaries and employee benefits	6,357	5,010
Occupancy	1,359	789
Data processing	768	597
Professional services	883	754
Advertising	138	90
Other operating expenses	1,882	1,431
Total noninterest expenses	11,387	8,671
INCOME BEFORE INCOME TAXES	7,356	5,255
Income taxes	1,805	1,224
NET INCOME	$ 5,551	$ 4,031
EARNINGS PER SHARE, BASIC	$ 0.87	$ 0.77
EARNINGS PER SHARE, DILUTED	$ 0.86	$ 0.76

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2021 AND 2020
(in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Total
Balance, December 31, 2019	$ 4,986	$ 44,808	$ 5,545	$ 55,339
Issuance of 75,000 shares of common stock for exercise of organizer stock warrant	75	525	-	600
Net proceeds from the issuance of common stock, net of issuance cost of $76	1,052	18,872	-	19,924
Common stock dividend ($0.20 per share)	-	-	(1,012)	(1,012)
Net income	-	-	4,031	4,031
Balance, December 31, 2020	6,113	64,205	8,564	78,882
Issuance of 13,750 shares of common stock for exercise of organizer stock warrant	14	96	-	110
Net proceeds from the issuance of common stock, net of issuance cost of $100	1,087	23,813	-	24,900
Common stock dividend ($0.22 per share)	-	-	(1,348)	(1,348)
Net income	-	-	5,551	5,551
Balance, December 31, 2021	$ 7,214	$ 88,114	$ 12,767	$ 108,095

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,551	$ 4,031
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,372	877
Deferred income tax	(45)	110
Amortization of net loan fees	1,015	929
Depreciation of premises and equipment	745	316
Loss on disposal of premises and equipment	4	12
Earnings on bank-owned life insurance	(272)	(164)
Increase in accrued interest receivable and other assets	(341)	(748)
Increase in accrued interest payable and other liabilities	532	271
Net cash provided by operating activities	8,561	5,634
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(217,987)	(101,099)
Purchases of bank-owned life insurance	-	(5,000)
Purchase of investment securities - held to maturity	(1,000)	-
Purchases of restricted investment in bank stock	(3,057)	(1,120)
Redemption of restricted investment in bank stock	-	600
Purchases of premises and equipment	(1,747)	(897)
Net cash used in investing activities	(223,791)	(107,516)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	105,959	77,992
Payments on capital lease obligations	(203)	-
Net increase in short-term FHLB advances	50,000	-
Proceeds from long-term FHLB advances	25,000	12,000
Issuance of common stock, net of offering costs	24,900	19,924
Issuance of common stock from the exercise of stock warrants	110	600
Payment of cash dividend	(1,348)	(1,012)
Net cash provided by financing activities	204,418	109,504
(Decrease)/increase in cash and cash equivalents	(10,812)	7,622
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	76,557	68,935
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 65,745	$ 76,557
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 2,476	$ 4,407
Income taxes	$ 1,610	$ 1,166
Capital Lease	$ 5,200	$ -

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Bank of Bird-in-Hand (the "Bank") was incorporated on May 31, 2013 (date of inception), under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank obtained its certificate of authorization to do business on November 29, 2013, commenced operations on December 2, 2013, and is a full-service bank providing personal and business lending and deposit services.

On December 1, 2015, the Bank, in accordance with Section 1609 of the Pennsylvania Banking Code of 1965, effected a conversion from a Pennsylvania state-chartered bank into a Pennsylvania state-chartered stock savings bank. The Plan of Conversion was approved and adopted by a unanimous vote of the directors and by at least a two-thirds vote of shareholders at a special meeting on October 27, 2015. As a state-chartered stock savings bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (FDIC). The Bank maintains its principal office in Bird-in-Hand, Pennsylvania, and provides financial services primarily to Lancaster County and the surrounding Pennsylvania counties.

Basis of Presentation

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations, and cash flow are summarized below.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 valuation of deferred tax assets.

In accordance with ASC Topic 825, *Financial Instruments*, entities other than public business entities are not required to disclose the fair values of financial assets and financial liabilities measured in the financial statements at amortized costs.

Concentrations of Credit Risk

The Bank grants commercial loans, commercial mortgages, residential mortgages, home equity, and consumer loans to businesses and individuals located in Lancaster County and the surrounding Pennsylvania counties. The concentration of credit by type of loan is set forth in Note 3. Its debtors' ability to honor their contracts is influenced by the region's economy.

Cash and Cash Equivalents

Cash and cash equivalents consisted of cash on hand, cash in banks, and overnight deposits with original maturities of three months or less.

The Bank 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.

1. Summary of Significant Accounting Policies (Continued)

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks, and federal funds sold. Generally, federal funds are purchased or sold for one-day periods. As of December 31, 2021 and 2020, the Bank had no federal funds sold amount.

Comprehensive Income

Accounting principles generally accepted in the United States of America 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 equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Other than net income, the Bank has no components of comprehensive income at December 31, 2021 and 2020.

Investment Securities

Investment securities are classified when purchased as either "securities available for sale" or "securities held to maturity."

Securities classified as "available for sale" are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity and are carried at fair value. Unrealized gains or losses are included in other comprehensive income, net of the related deferred tax effect. Realized gains and losses on disposition of securities are recognized as noninterest income measured on specific identification of the simple difference between net proceeds and adjusted book value. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as "held to maturity" are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and whether or not management intends to sell the security or whether it is more likely than not that they would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. A decline in value that is considered to be other-than-temporary is recorded as a loss within noninterest income in the Statements of Operations.

Loans Receivable

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 and any deferred 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 Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into commercial and consumer loans.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

Commercial loans consist of the following classes: commercial and industrial and commercial real estate. Consumer loans consist of the following classes: residential mortgages, home equity loans, and other consumer 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, 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.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. 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 is 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. 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 utilization of peer group statistics, 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 and general 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 (or 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 by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. 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.

3. Nature and volume of the portfolio and terms of loans, existence and effect of any concentrations of credit, and changes in the level of such concentrations.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified, and nonaccrual loans and other loan modifications.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

6. Quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors.

7. Changes in underlying value of collateral.

8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable, or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A majority of the Bank's loan assets are loans to business owners of many types, such as entrepreneurs, proprietors, professionals, partnerships, LLPs, LLCs, and corporations. The Bank makes commercial loans for purchases and refinances, equipment financing, accounts receivable and inventory financing, and other purposes, as required by the customer base. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable, and finished inventory or raw material. Individual loan advance rates may be higher or lower, depending upon the financial strength of the borrower and/or the term of the loan.

Non-real estate secured commercial-term loans may have maturities up to ten years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans includes the borrower's accounts receivable, inventory, and machinery and equipment. Included in commercial loans are agricultural loans. Agricultural loans are secured by properties such as farmland, agricultural-related properties, or equipment. These loans are highly dependent on the business operations for repayment.

Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale or lease of the subject property. Commercial real estate loans require a loan-to-value ratio of not greater than 80 percent. The maximum loan amortization is 25 years. Interest rates can be either floating or adjustable periods of up to five years with a rate reset provision.

Commercial construction loans include loans to finance the construction or rehabilitation of commercial properties, multi-family properties, or one-to-four family residential structures.

Consumer home equity lines of credit and residential mortgages are secured by the borrower's residential real estate in either a first or second lien position. Consumer home equity lines require a loan-to-value ratio of not greater than 80 percent, with limited exceptions. Consumer home equity lines of credit have variable rates and a 15-year draw period followed by a 15-year repayment period. Residential mortgages have adjustable rates with terms and amortization up to 30 years. The Bank also offers 3/1, 5/1, 7/1, and 10/1 adjustable rate mortgages.

Other consumer loans include personal lines of credit and personal term loans. The majority of these loans are unsecured.

The majority of commercial and consumer loans are located in the Lancaster County and surrounding areas.

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 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 commercial and industrial loans, 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. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The Bank has only one impaired loan and the impairment was measured by the present value of expected future cash flows discounted at the loan's effective interest rate. 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 and industrial 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 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.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings 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 troubled debt restructurings are designated as impaired.

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, will be 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 as 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 as 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 as doubtful have all the weaknesses inherent in loans classified as 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. All loans were rated pass at December 31, 2021 and 2020.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of officers. The Bank is the owner and beneficiary of the policies. The life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2021 and 2020, is comprised of stock in the Federal Home Loan Bank of Pittsburgh (FHLB) in the amount of $3,743,100 and $685,600, respectively, and Atlantic Community Bankers Bank (ACBB) in the amount of $70,000 for December 31, 2021 and 2020. All restricted stock is carried at cost. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2021 and 2020.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

1. Summary of Significant Accounting Policies (Continued)

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 current period taxable income. The Bank 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 basis of assets and liabilities, net operating loss carryforwards, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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 the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for uncertain tax positions 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 Bank had no uncertain tax positions at December 31, 2021 and 2020.

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There was no interest or penalties recognized during 2021 and 2020.

Federal and state tax returns from 2018 through 2020 are open for examination as of December 31, 2021.

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 and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

1. Summary of Significant Accounting Policies (Continued)

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects 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 that may be issued by the Bank relate to outstanding stock warrants.

(In thousands, except share and per-share data)		2021		2020
Net income	$	5,551	$	4,031
Weighted-average number of shares outstanding (basic)		6,402,008		5,269,326
Effect of dilutive securities		45,895		46,678
Weighted-average number of shares outstanding (diluted)	$	6,447,903	$	5,316,004
Per share information:				
Basic earnings per share	$	0.87	$	0.77
Diluted earnings per share	$	0.86	$	0.76

Options to purchase 66,875 and 80,625 shares of common stock, at a weighted-average price of $8, outstanding at December 31, 2021 and 2020, respectively, were included in dilutive earnings. At December 31, 2021 and 2020, there were no awards excluded from the computation of diluted earnings per share, as there were no awards outstanding with an anti-dilutive impact.

Revenue Recognition

The Bank accounts for applicable revenue in accordance with ASC Topic 606-Revenue from contracts with customers. Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments, along with noninterest revenue resulting from loans servicing and earnings on bank-owned life insurance, are not within scope of this Topic. The main sources of noninterest income within the scope of the standard are as follows:

•Insufficient fund fees and other service charges– Revenue from service charges on deposit accounts is earned through cash management, wire transfer, and other deposit-related services; as well as overdraft, non-sufficient funds, account management, and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees.

•ATM interchange and fee income – ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder used a Bank's ATM. The Bank's performance obligation for ATM fee income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion.

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

2. Investments - Held to Maturity

A summary of investment securities held to maturity at December 31, 2021 is as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Subordinated debentures	$ 1,000	$ 2	$ -	$ 1,002
Total	$ 1,000	$ 2	$ -	$ 1,002

In 2021, the Bank made a $1,000,000 investment into the Community First Fund (CFF), which is a Community Development Financial Institution. The investment bears interest at 2% annually, payable semi-annually. The investment has a 5-year term, maturing in June 2026; however, it will roll into another 5-year term if termination notification is not provided to the CFF.

Securities are evaluated on an ongoing basis to determine whether a decline in their value is other-than-temporary. For debt securities, management considers whether the present value of cash flows expected to be collected is less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and management's intent to sell the security or whether it is more likely than not that they would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other-than-temporary. Once a decline in value is determined to be other-than-temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings. There were no securities in an unrealized loss position at December 31, 2021.

3. Loans Receivable

The composition of loans receivable at December 31, 2021 and 2020, is as follows (in thousands):

	2021	2020
Commercial and industrial	$ 614,112	$ 428,346
Commercial real estate	17,492	7,576
Residential mortgage	57,926	42,399
Home equity	16,310	11,265
Consumer, other	650	382
Total	$ 706,490	$ 489,968
Unearned net loan origination fees and costs	2,428	1,980
Allowance for loan losses	(5,661)	(4,291)
Net loans	$ 703,257	$ 487,657

4. Allowance for Loan Losses

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 regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2021 and 2020 (in thousands):

December 31, 2021	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	Ending Balance
Commercial and industrial	$ 3,700	$ -	$ -	$ 1,122	$ 4,822
Commercial real estate	65	-	-	72	137
Residential mortgage	412	-	-	129	541
Home equity	109	-	-	43	152
Consumer, other	5	(3)	1	6	9
Total	$ 4,291	$ (3)	$ 1	$ 1,372	$ 5,661

December 31, 2020	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	Ending Balance
Commercial and industrial	$ 2,902	$ -	$ -	$ 798	$ 3,700
Commercial real estate	69	-	-	(4)	65
Residential mortgage	334	-	-	78	412
Home equity	105	-	-	4	109
Consumer, other	4	-	-	1	5
Total	$ 3,414	$ -	$ -	$ 877	$ 4,291

4. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses:			Loans:		
December 31, 2021	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 4,822	$ 8	$ 4,814	$ 614,112	$ 120	$ 613,992
Commercial real estate	137	-	137	17,492	-	17,492
Residential mortgage	541	-	541	57,926	-	57,926
Home equity	152	-	152	16,310	-	16,310
Consumer, other	9	-	9	650	-	650
Total	$ 5,661	$ 8	$ 5,653	$ 706,490	$ 120	$ 706,370

	Allowance for Loan Losses:			Loans:		
December 31, 2020	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 3,700	$ 11	$ 3,689	$ 428,346	$ 134	$ 428,212
Commercial real estate	65	-	65	7,576	-	7,576
Residential mortgage	412	-	412	42,399	-	42,399
Home equity	109	-	109	11,265	-	11,265
Consumer, other	5	-	5	382	-	382
Total	$ 4,291	$ 11	$ 4,280	$ 489,968	$ 134	$ 489,834

4. Allowance for Loan Losses (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Bank's internal risk rating system as of December 31, 2021 and 2020 (in thousands):

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 614,112	$ -	$ -	$ -	$ 614,112
Commercial real estate	17,492	-	-	-	17,492
Residential mortgage	57,926	-	-	-	57,926
Home equity	16,310	-	-	-	16,310
Consumer, other	650	-	-	-	650
Total	$ 706,490	$ -	$ -	$ -	$ 706,490

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and industrial	$ 428,346	$ -	$ -	$ -	$ 428,346
Commercial real estate	7,576	-	-	-	7,576
Residential mortgage	42,399	-	-	-	42,399
Home equity	11,265	-	-	-	11,265
Consumer, other	382	-	-	-	382
Total	$ 489,968	$ -	$ -	$ -	$ 489,968

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 table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2021 and 2020 (in thousands):

	2021							
	Current	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 614,112	$ -	$ -	$ -	$ -	$ -	$ 614,112	$ -
Commercial real estate	17,492	-	-	-	-	-	17,492	-
Residential mortgage	57,926	-	-	-	-	-	57,926	-
Home equity	16,310	-	-	-	-	-	16,310	-
Consumer, other	650	-	-	-	-	-	650	-
Total	$ 706,490	$ -	$ -	$ -	$ -	$ -	$ 706,490	$ -

4. Allowance for Loan Losses (Continued)

	2020							
	Current	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 428,346	$ -	$ -	$ -	$ -	$ -	$ 428,346	$ -
Commercial real estate	7,576	-	-	-	-	-	7,576	-
Residential mortgage	42,399	-	-	-	-	-	42,399	-
Home equity	11,265	-	-	-	-	-	11,265	-
Consumer, other	382	-	-	-	-	-	382	-
Total	$ 489,968	$ -	$ -	$ -	$ -	$ -	$ 489,968	$ -

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan that is then identified as a troubled debt restructuring (TDR). The Bank may modify loans through rate reductions, extensions of maturity, interest-only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Bank 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.

There were no loans modified as trouble debt restructurings that occurred during the years ended December 31, 2021 and December 31, 2020. As of December 31, 2021, there were no troubled debt restructurings that defaulted within the past 12 months. As of December 31, 2021, the recorded investment and unpaid principal balances for one impaired loan was $120,000, with a related allowance of $8,000 since the loans recorded investment exceeded the present value of future cash flows. The average recorded investment and the interest income recognized for 2021 was $127,000 and $5,000, respectively.

4. Allowance for Loan Losses (Continued)

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act terminates, or (B) December 31, 2020.

On December 27, 2020, the president signed into law the Consolidated Appropriations Act, 2021, which amended CARES Act Section 4013. The amendment extends the applicable period for which a financial institution is able to (a) suspend the requirements under United States generally accepted accounting principles for loan modifications related to the coronavirus disease (COVID-19) pandemic that would otherwise be categorized as a troubled debt restructuring and (b) any determination of a loan modified as a result of the effects of the COVID-19 pandemic as being a TDR, including impairment for accounting purposes. The amended end date for the relief related to a financial institution electing to suspend TDR and loan impairment accounting for qualifying modifications was extended from the earlier of December 31, 2020, or 60 days after the national emergency concerning COVID-19 declared by the president terminates to the earlier of January 1, 2022, or 60 days after the national emergency concerning COVID-19 declared by the president terminates.

On April 7, 2020, federal banking regulators issued a revised interagency statement that included guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented.

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal bank regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

During 2020, the Bank provided qualified borrowers the option for 2-month loan payment deferrals or interest only loan payments in accordance with the CARES Act section 4013. These short-term deferrals are not considered troubled debt restructurings per the guidance noted above. As of December 31, 2021, there was one loan with an outstanding balance of $401,000 deferring payments. At December 31, 2020, there were no borrowers deferring payments or making interest only payments in relation to the CARES Act Section 4013.

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2021 and 2020, are as follows (in thousands):

	Estimated Useful Lives	2021	2020
Leasehold improvements	15	$ 1,315	$ 858
Capital lease	15	5,200	-
Furniture, fixtures, and equipment	3-10	3,794	2,358
Fixed asset suspense		51	309
		10,360	3,525
Less accumulated depreciation and amortization		(1,675)	(1,035)
Total		$ 8,685	$ 2,490

Depreciation expense charged to operations amounted to $745,000 and $316,000 for the years ended December 31, 2021 and 2020, respectively.

6. Deposits

The components of deposits at December 31, 2021 and 2020, are as follows (in thousands):

	2021	2020
Demand, noninterest-bearing	$ 76,662	$ 60,698
Demand, interest-bearing	107,928	97,583
Savings deposits	273,907	191,828
Money market accounts	66,760	84,005
Time deposits over $250,000 or more	12,780	12,595
Other time deposits	55,998	41,367
	$ 594,035	$ 488,076

At December 31, 2021, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31:	
2022	$ 51,664
2023	3,326
2024	12,696
2025	95
2026	997
Total	$ 68,778

7. Borrowings

Short-term debt was as follows (in thousands):

All short-term borrowings consist of advances from the Federal Home Loan Bank "FHLB" as of December 31, 2021. The following table presents a summary of short-term debt as of December 31, 2021 (in thousands). There were no short-term borrowings at December 31, 2020.

	2021	Weighted Average Rate
Maturing in March 2022	$ 15,000	0.33 %
Maturing in June 2022	25,000	0.40 %
Maturing in December 2022	10,000	0.64 %
Total	$ 50,000	0.43 %

Long-term debt was as follows (in thousands):

All long-term borrowings consist of advances from the FHLB as of December 31, 2021 and December 31, 2020. The following table presents a summary of long-term debt as of December 31, 2021 and December 31, 2020 (in thousands).

Years ending December 31:	2021	Weighted Average Rate	2020	Weighted Average Rate
2023	$ 19,000	0.92 %	$ 4,000	0.37 %
2024	10,000	1.36 %	-	- %
2025	8,000	0.59 %	8,000	0.59 %
Total	$ 37,000	0.97 %	$ 12,000	0.52 %

The Bank has borrowing capacity with the FHLB of approximately $355,763,000, of which $87,000,000 of borrowings and $65,000 of letters of credit were outstanding as of December 31, 2021. Advances from the FHLB are secured by a blanket lien on qualified collateral, defined principally as mortgage loans, which are owned by the Bank free and clear of any liens or encumbrances.

The Bank has a $7,500,000 federal funds overnight line of credit with Atlantic Community Bankers Bank ($3,500,000 on an unsecured basis and $4,000,000 secured by investments). The Bank also has a $20,000,000 unsecured federal funds line of credit with Pacific Coast Bankers' Bank and a $6,500,000 unsecured federal funds line of credit with Zions Bank. Borrowings on each line of credit at December 31, 2021 and 2020, were $0.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window of $4,139,000 as of December 31, 2021. All borrowings through this facility are secured by a specific pledge of loans. There were no borrowings outstanding under this facility at December 31, 2021 and 2020.

8. Income Taxes

The provision for income taxes consists of (in thousands):

	2021	2020
Current	$ 1,850	$ 1,114
Deferred	(45)	110
Income taxes	$ 1,805	$ 1,224

The components of the net deferred liability as of December 31, 2021 and 2020, are as follows (in thousands):

	2021	2020
Deferred tax assets:		
Organizational costs	$ 69	$ 78
Deferred Comp	167	113
Allowance for loan losses	1,115	795
Other	9	15
Total deferred tax assets	1,360	1,001
Deferred tax liabilities:		
Depreciation	428	342
Loan origination costs	594	458
Prepaid expenses	99	83
Accrual to cash	329	253
Total deferred tax liabilities	1,450	1,136
Net deferred tax liabilities	$ (90)	$ (135)

In assessing the realizability of deferred tax assets (liabilities) at December 31, 2021, management considers whether it is more likely than not that some portion or all of the deferred tax assets (liabilities) will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and prudent, feasible, and permissible, as well as available, tax planning strategies in making this assessment.

8. Income Taxes (Continued)

Income tax as reported differs from the amount computed by applying the statutory federal income tax rate to income before taxes. A reconciliation of the differences by amount and percentage is as follows (in thousands):

	For the Years Ended December 31,			
	2021		2020	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,544	21.0 %	$ 1,104	21.0 %
Effect of permanent items	(29)	(0.4)	(32)	(0.6)
Current state tax	290	3.9	152	2.9
Actual tax expense and effective rate	$ 1,805	24.5 %	$ 1,224	23.3 %

9. Employee Benefit Plans

401(k) Retirement Plan

The Bank established a 401(k) Plan (the Plan) that covers employees who meet the eligibility requirements of having worked 1,000 hours in a plan year. Participants are permitted to contribute up to the maximum percentage allowable by law of their compensation to the Plan. The Bank elected to make a 4 percent matching contribution for all employees' contributions up to 5 percent as part of its Safe Harbor Plan. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2021 and 2020, was $202,000 and $166,000, respectively.

Supplemental Executive Retirement Plan

The Bank maintains deferred compensation agreements with certain members of executive management, which provide benefits payable beginning at age 65, or upon subsequent retirement from the Bank, or if the executive(s) becomes totally disabled. Under certain circumstances, benefits are payable to designated beneficiaries. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.0 percent ratably over the remaining years to the date when the executives are first eligible for benefits. The deferred compensation charged to expense totaled $258,000 and $238,000 for the years ended December 31, 2021 and 2020, respectively. The benefit obligation associated with the Supplemental Plan was $797,000 and $539,000 at December 31, 2021 and 2020, respectively.

10. Lease Commitments

Capital Lease Obligation

In 2021, the Bank entered into a lease agreement for a corporate office located in Paradise, PA that met the classification thresholds to be considered a capital lease in accordance with ASC 840. As of December 31, 2021, the asset recorded as a capital lease was $5.2 million and accumulated depreciation associated with the capital lease was $173,000.

10. Lease Commitments (Continued)

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments (in thousands):

Years ending December 31:		
2022	$	416
2023		438
2024		460
2025		471
2026		493
Thereafter		5,160
Total		7,438
Imputed Interest		(2,308)
Total Lease Obligation	$	5,130

Operating Lease Obligations

In 2013, the Bank entered into an operating lease agreement for its main banking office located in Bird-in-Hand, PA. This lease commenced November 2013 and has a ten-year term with an additional five-year option period.

In 2016, the Bank entered into an operating lease agreement for its branch in Intercourse, PA. This lease commenced August 2016 and has a ten-year term with two additional five-year option periods. In 2020, the Bank entered into an operating lease agreement for a garage structure in Ephrata, PA to be a storage area for the Mobile Branches. This lease commenced July 2020 and has a five-year term with an additional one-year option period. In 2021, the Bank amended the operating lease for its limited purpose office in Paradise, PA. The original lease commenced in June 2017 and had a 5-year term with two additional 5-year option periods. The 2021 addendum commences in January 2022 and has a 10-year term. In 2021, the Bank entered into an operating lease agreement for a branch in Ephrata, PA. This lease commenced in March 2021 and has a five-year term with two additional five-year option periods. Rent expense for the years ended December 31, 2021 and 2020, was $337,000 and $289,000, respectively.

Future minimum lease payments by year and in the aggregate under this lease agreement are as follows (in thousands):

Years ending December 31:		
2022	$	317
2023		303
2024		231
2025		232
2026		158
Thereafter		629
Total	$	1,870

11. Employment Agreements

The Bank has employment agreements with its chief executive officer and chief lending officer. The agreements include minimum annual salary commitments and change of control provisions. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreement.

12. Transactions with Executive Officers, Directors, and Principal Shareholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families, and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. During 2021 and 2020, a member of the Board provided business development services to the Bank that totaled approximately $19,000 and $2,000, respectively. Loans receivable from related parties totaled $5,134,000 and $6,125,000 at December 31, 2021 and 2020, respectively. During 2021 and 2020, new loans and advances to such related parties totaled $1,250,000 and $1,502,000 and repayments aggregated $2,241,000 and $2,504,000, respectively. Deposits of related parties totaled $12,185,000 and $13,459,000 at December 31, 2021 and 2020, respectively.

The Bank leased two branches and its limited purpose office from two separate related parties, as described in Note 10. Rent expense for those properties during the years ended December 31, 2021 and 2020, was $187,000 and $180,000, respectively.

13. Financial Instruments with Off-Balance-Sheet Risk

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 letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

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 is represented by the contractual amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the Bank's financial instrument commitments at December 31, 2021 and 2020, is as follows (in thousands):

	Contract Amount December 31,	
	2021	2020
Commitments to extend credit	$ 159,494	$ 134,879
Letters of credit	8,004	8,707

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

13. Financial Instruments with Off-Balance-Sheet Risk (Continued)

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The current amount of the liability as of December 31, 2021 and 2020, for guarantees under standby and commercial letters of credit issued is not material.

14. Contingent Liabilities

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

15. Regulatory Matters

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total, Tier 1, and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets.

The Bank is under additional regulatory requirements in order to maintain federal deposit insurance. Management believes, as of December 31, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject.

15. Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2021 and 2020, are presented in the following tables (in thousands):

	Actual		For Capital Adequacy Purposes with Capital Conservative Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total capital (to risk-weighted assets)	$ 113,769	16.02 %	$ 74,568	10.50 %	$ 71,017	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 108,095	15.22 %	$ 60,364	8.50 %	$ 56,814	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	$ 108,095	15.22 %	$ 49,712	7.00 %	$ 46,161	6.50 %
Tier 1 capital (to average assets)	$ 108,095	14.51 %	$ 29,800	4.00 %	$ 37,249	5.00 %

	Actual		For Capital Adequacy Purposes with Capital Conservative Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Total capital (to risk-weighted assets)	$ 83,184	16.26 %	$ 53,705	10.50 %	$ 51,148	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 78,882	15.42 %	$ 43,476	8.50 %	$ 40,918	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	$ 78,882	15.42 %	$ 35,803	7.00 %	$ 33,246	6.50 %
Tier 1 capital (to average assets)	$ 78,882	14.00 %	$ 22,535	4.00 %	$ 28,169	5.00 %

The new risk-based capital rules adopted effective January 1, 2015, require that banks maintain a capital conservation buffer of 250 basis points in excess of the minimum capital ratio. The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

16. Shareholders' Equity

The Pennsylvania Department of Banking, in issuing its charter to the Bank, required an allocation of its initial capital to an expense fund in the amount of $840,000 to defray anticipated initial losses. Accordingly, $840,000 of the Bank's surplus is reserved for future dividend payments until the Bank reaches certain levels of accumulated net retained earnings, which would also require regulatory approval, as stated in Note 15.

16. Shareholders' Equity (Continued)

Stock Offering

In 2021, the Bank sold 1,086,956 shares of common stock at $23 per share, which resulted in net proceeds of approximately $24,900,000, after offering costs of approximately $100,000. In 2020, the Bank sold 1,052,631 shares of common stock at $19 per share, which resulted in net proceeds of $19,924,100, after offering costs of $75,900.

Common Stock Cash Dividend

On June 23, 2021, the Bank declared a cash dividend of $0.22 per share to shareholders of record as of August 13, 2021, and payable on September 1, 2021. On July 29, 2020, the Bank declared a cash dividend of $0.20 per share to shareholders of record as of August 14, 2020 and payable September 8, 2020.

Stock Warrants

The Bank issued stock purchase warrants in connection with its initial public offering, giving certain organizers and directors the right to purchase shares of common stock at the initial offering price of $10 per share. The offering price was adjusted to $8 per share for a five-for-four stock split, effected in the form of a 25 percent stock dividend paid July 31, 2018. For organizers, the warrants serve as a reward and compensation for bearing the financial risk of the Bank's organization by advancing "seed money" for its organizational and pre-opening expenses. For the initial directors, the warrants serve as an incentive for them to build the Bank's business.

The organizers' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, and are transferable in accordance with the warrant agreement. The initial directors' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, are nontransferable, except upon the holder's death, and are subject to a three-year vesting schedule. Under a three-year vesting schedule, the holder of an initial director warrant may exercise his warrant for one-third of the shares under the warrant after the first anniversary of the grant date, two-thirds of the shares after the second anniversary, and, finally, all of the shares after the third anniversary. The initial directors' warrants will terminate within 30 days of the termination of the warrant holder's service as a director of the Bank.

Both the organizers' warrants and the initial directors' warrants are subject to a forfeiture clause, which the FDIC or the Pennsylvania Department of Banking and Securities may invoke if the Bank's capital falls below minimum requirements and would require the warrant holders to exercise the warrants immediately or forfeit all rights under the warrants. These shares may be issued from previously authorized but unissued shares of stock.

During 2021, organizers and directors exercised 13,750 warrants at the price of $8 per share, and during 2020, organizers and directors exercised 75,000 warrants at the price of $8 per share,

The fair value of these shares using the Black-Scholes model was zero, based on the fair value for the stock on the date of grant. Accordingly, no compensation expense was recognized on these warrants.

16. Shareholders' Equity (Continued)

A summary of the Bank's stock warrant activity for the year ended December 31, 2021 follows:

	Number of Stock Options	Weighted-Average Exercise Price
Outstanding, December 31, 2020	80,625	$ 8.00
Granted	-	-
Expired/terminated	-	-
Exercised	13,750	8.00
Outstanding, December 31, 2021	66,875	8.00
Exercisable at year-end	66,875	8.00

The warrants have a weighted-average remaining contractual life of 1.92 years, and there are 66,875 warrants exercisable as of December 31, 2021. The intrinsic value of the stock warrants outstanding and exercisable at December 31, 2021, was $1,170,313.

17. Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet as of December 31, 2021, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 31, 2022, the date these financial statements were available to be issued.