2021
ANNUAL REPORT

VICTORY BANCORP

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THE VICTORY BANK STATEMENT OF PURPOSE

“We exist to help our clients fulfill their visions and dreams”

Our Values

Extraordinary Personal Service

- We deliver professional financial advice and good value in a convenient and highly responsive manner. Every contact is an opportunity to help our clients feel important and satisfied.

Respect for All, Teamwork and a Great Working Environment

- We believe that happiness and job satisfaction are integral parts of business success. We strive to make The Victory Bank ***the*** employer of choice for an exclusive team of professionals who joyfully seek purpose in their work and are fully engaged in the pursuit of excellence.
- We conduct ourselves with respect and tolerance for all, regardless of age, disability, gender, race, sexual preference, economic status, religion or political views.
- We recognize and celebrate the importance and power of teamwork, where individual recognition is secondary to working in a collaborative way in pursuit of common goals.
- We willingly accept the responsibilities of leadership. We consistently model and teach our core values, and gauge our effectiveness through the positive changes that we create.

Candor, Credibility and Integrity

- We communicate openly, honestly and directly, regardless of title or position. We do not pollute our work environment with gossip and negativity.
- Our decisions and actions consider the long-term best interests of our clients, team members, communities and shareholders.
- We deliver what we promise.
- We do what is ethically right. Business relationships must provide good value to our clients, and be fair and profitable to the Bank.
- Our values stand the challenges of business, and the tests of time. We do not compromise our values for personal or corporate gain.

Accountability and Efficiency

- We hold ourselves accountable to do our jobs well, and are relentlessly committed to excellence.
- We plan our work, set clear goals, and think systematically about the long-term implications of our decisions.
- We operate efficiently and without waste.

Innovation, Adaptation and Learning

- We are stewards of our team’s collective talents and capabilities, committed to helping all team members reach their ultimate potential.
- We must always be in a state of growth, adapting to an evolving world through the improvement of our knowledge, processes and systems. We recognize those individuals who innovate and challenge the status quo.
- Mistakes are viewed as opportunities to learn and improve, and when things go wrong, we focus on solutions rather than blame.

“Perfection is our inspiration”

VICTORY BANCORP

EXECUTIVE LEADERSHIP TEAM

Alexander S. Kroll
Chief Lending Officer

Robert Schultz
Chief Financial Officer

Shelly Stockmal
Victory Community Leader

Jon Swearer
Chief Credit Officer

BOARD OF DIRECTORS

Alan S. Apt
President and CEO
Aptcor
Commercial Realtors

Matthew "Bo" Bates
Chief Executive Officer
Evans Network
of Companies

Robert L. Brant
Esquire
Robert L. Brant
& Associates, LLC

Michael A. Eddinger
Principal and Co-Owner
Suburban
Water Technology

Steven D. Gilmore, P.E.
Chief Executive Officer
Gilmore
and Associates, Inc.

Kevin L. Johnson, P.E.
President
Traffic Planning
and Design, Inc.

Joanne M. Judge, CPA
Esquire
Stevens & Lee

Joseph W. Major
President
Chairman of the Board /
Bank Leader
The Victory Bank

Mary Beth Touey
Retired Controller
Women's Health Care
Group of PA

Dennis R. Urffer, CPA
Retired Senior Director
HBK CPAs & Consultants

FROM THE CHAIRMAN

Dear Shareholder,

With strong growth in loans, assets, and deposits, capped-off with record earnings and book value growth, 2021 proved to be a remarkable year for The Victory Bancorp, the holding company of The Victory Bank. It was a year filled with difficulties and opportunities that required every member of our team to be strong, resilient, flexible, and decisive. Much like building a puzzle, our team was forced by these challenges to assemble people and processes to solve problems in challenging new ways.

In summary:

- Earnings per share, fully diluted, were $1.94 per share as compared to $1.14 the prior year
- Cash dividends paid to our shareholders were $.30 per share, for an aggregate of $585 thousand
- Book value per share closed the year at $12.92, as compared to $11.29 for the prior year
- Total stockholders' equity increased $3.2 million to $25.2 million

THE PANDEMIC OPERATING ENVIRONMENT

As the COVID pandemic rapidly spread in early 2020, more than 75% of the workforce of The Victory Bank was operating remotely at full speed in a matter of days. The retail operation quickly switched to "drive-through only," and the team discovered all sorts of creative ways to service our clients and originate new loans. The SBA's Paycheck Protection Program (PPP) lending program became law. The Bank pivoted again, quickly identifying the clients who most needed this support, funding almost 600 PPP loans totaling about $60 million in 2020. At the same time, deposits, which are the Bank's greatest source of funding, continued to increase rapidly, in part because of normal growth and because of PPP and other government-sponsored programs that added significantly to client and Bank liquidity.

As 2021 began, "PPP round 3" became law and was again a lead product. In this round, the Bank originated another $40 million in loans. At the same time, the Bank was processing applications for forgiveness of the first rounds of these loans by the SBA, which is another complicated and time-consuming process. In total, the Bank produced approximately $100 million of PPP loans, helping to protect 11 thousand local jobs and keeping substantial numbers of small businesses above water. Despite these disruptions, challenges, and opportunities, conventional lending and banking services remained active and grew throughout the year, with Non-PPP loans increasing by approximately $38 million, or 15.8%, from the year ended 2020.

CORE EARNINGS, ASSET, LOAN AND DEPOSIT GROWTH, CONSOLIDATED CAPITAL

Despite these challenges, in 2021, the Bank's financial performance for the year was positive. Total assets grew from $429 million in 2020 to $444 million in 2021; net loans (including PPP balances) increased from $284 million to $301 million year over year, and deposits increased from $337 million to $394 million. The Bank ended the 2021 fiscal year with approximately $22 million of PPP loans still on its balance sheet, and it is expected that most of these will be forgiven by the SBA during 2022.

While the Bank has traditionally earned the majority of its revenue from the spread between the yield on its assets and the cost of funds, in 2021 revenue was also positively affected by the significant fees received from the SBA as PPP loans were forgiven and paid off, totaling $2.2 million in 2021.

We are pleased to report that the Bank's total interest income increased from $15.6 million in 2020 to $16.9 million in 2021. Despite deposit growth of 17% during 2021, actual funding costs declined by $1 million because of the low-interest-rate environment. As a result of loan and investment growth and lower funding costs, net interest income increased by 19%, from $12.1 million in 2020 to $14.4 million in 2021. After provision for loan losses, total net interest income increased by 30%, from $10.9 million in 2020 to $14.1 million in 2021.

Total non-interest income increased from $580 thousand in 2020 to $955 thousand in 2021. A portion of this increase resulted from a payout under certain Bank-Owned Life Insurance (BOLI) policies on the life of Richard Graver, President of Victory Bancorp and the Bank's Chief Lending Officer.

Mr. Graver tragically passed away in September 2021. Rich was the first employee of the Bank and a beloved member of the team. Faced with this unexpected loss, the Bank quickly reassigned key responsibilities to several other highly experienced and competent bankers and has proceeded forward at a record pace. Rich loved the Bank and everyone involved, especially our clients and shareholders, and he will be forever remembered by all of us.

Victory Bancorp has periodically issued subordinated debt, which under banking regulations can be counted as capital at the holding company level, and down-streamed to the Bank as capital, if needed. In response to the uncertainties surrounding the COVID-19 pandemic and in anticipation of the maturity of $5.0 million of previously-issued debt, Victory Bancorp issued $10.0 million of 10-year term subordinated debt in June 2020. When the existing $5.0 million subordinated debt matured in January 2021, it was paid off in full, which reduced the holding company's total subordinated debt position from $17.7 million to approximately $12.8 million, an amount sustained throughout 2021.

Primarily because the Bank's strategic growth plan called for growth and expansion of its commercial lending team and credit department, non-interest expenses increased from $8.5 million in 2020 to $10.3 million in 2021. In June 2021, the Bank successfully opened a new lending office in Horsham, Pennsylvania, providing a "home" for an expanded staff of experienced commercial bankers, dedicated portfolio managers, and relationship assistants. As a result, the bank is positioned to better serve the eastern portion of Montgomery County and provide easier access and presence in Bucks and Philadelphia Counties.

CREDIT QUALITY AND CHARGE-OFFS

Strategically, the primary business of The Victory Bank is serving the credit and deposit needs of small to medium-sized businesses and professionals located in the proximity of the Bank, and 80% of its clients are located in Montgomery, Chester, and Berks Counties. Like most banks, a primary driver of success is making sound credit decisions and managing the loan portfolio carefully and intentionally. Non-performing assets remained very low in 2021, increasing slightly from $161 thousand at year-end 2020 to $272 thousand at year-end 2021. Total charge-offs for the year ended 2021 were $28 thousand, representing 0.01% of the average loan portfolio.

In anticipation of possible credit losses associated with the COVID-19 pandemic, in early 2020, the Bank sharply increased loan loss reserves, adding $1.3 million. In 2021, the amount provided was $334 thousand, as most anticipated loan losses failed to materialize. The total allowance for loan losses increased from $3.1 million at year-end 2020 to $3.5 million at year-end 2021, representing approximately 1.15% of net loans and 1.24% on non-PPP net loans.

BANK CAPITAL RATIOS

2021 year-end capital ratios for The Victory Bank were:

- Total capital to risk-weighted assets – 13.0%
- Tier 1 capital to risk-weighted assets – 11.8%
- Common stock Tier 1 capital to risk-weighted assets – 11.8%
- Tier 1 capital to average assets – 7.7%

ADAPTING TO A CHANGING WORLD

Because the Bank had actively promoted remote deposit capture technology and other tech-based delivery systems since inception, the client base was unusually well prepared to deal with many of the consequences of the pandemic. Still, the past two years have been fraught with change and disruption. We have adapted to remote meetings, team members working from far-away places, “drive-through only,” retail banking, masking and vaccinations, historically low-interest rates, staffing shortages, and quarantines. During the pandemic, we happily continued to open new deposit accounts, originate loans, and take impeccable care of our clients. In 2021, we also made significant upgrades to our data storage and security, hired several highly qualified commercial bankers, and supported the opening of a new lending office. Victory Bancorp also paid out record dividends in 2021, totaling 30 cents per share, and increased book value by $1.63 per share.

Strategically, building an outstanding team of bankers and delivering a superior client experience have been The Victory Bank’s foundational tenets. Despite the many disruptions and challenges of the past two years, our team of bankers has managed to consistently deliver this superior client experience and build the balance sheet, resulting in meaningful growth and record profitability. None of this could have happened without the faithful support of our shareholders, our board of directors, our community of clients, and the incredible team of bankers who have joyfully and enthusiastically solved problems and adapted to change.

My sincerest thanks to all of you.

Best Regards,

Joe Major
Bank Leader

The consolidated financial statements are presented for convenience and information purposes only. While reasonable efforts have been made to ensure the integrity of such information, they should not be relied on. A copy of the printed consolidated financial statements will be provided upon request.

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Independent Auditor's Report

To the Board of Directors
The Victory Bancorp, Inc.
Limerick, Pennsylvania

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

BDO USA, LLP

Philadelphia, Pennsylvania
March 28, 2022

Consolidated Financial Statements

The Victory Bancorp, Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

December 31,	**2021**	2020
Assets		
Cash and due from banks	**$ 101,992**	$ 112,276
Federal funds sold	**3,000**	4,000
Cash and cash equivalents	**104,992**	116,276
Securities available-for-sale	**24,088**	13,306
Loans held for sale, net	**337**	3,745
Loans receivable, net of allowance for loan losses of $3,455 at December 31, 2021 and $3,141 at December 31, 2020	**301,166**	283,618
Premises and equipment, net	**3,227**	3,272
Restricted investment in bank stocks	**1,741**	1,528
Accrued interest receivable	**1,041**	1,093
Bank owned life insurance	**5,451**	5,608
Other assets	**1,735**	979
Total Assets	**$ 443,778**	$ 429,425
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 71,198**	$ 61,357
Interest-bearing	**323,151**	275,656
Total deposits	**394,349**	337,013
Borrowings	**10,500**	51,481
Subordinated debt	**12,777**	17,709
Accrued interest payable and other liabilities	**962**	1,200
Total Liabilities	**418,588**	407,403
Stockholders' Equity		
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding were 1,950,362 and 1,950,077 shares at December 31, 2021 and 2020	**1,950**	1,950
Surplus	**14,318**	14,260
Retained earnings	**8,730**	5,365
Accumulated other comprehensive income	**192**	447
Total Stockholders' Equity	**25,190**	22,022
Total Liabilities and Stockholders' Equity	**$ 443,778**	$ 429,425

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Income
(in thousands, except share and per share data)

Years Ended December 31,	2021	2020
Interest Income		
Interest and fees on loans	$ 16,184	$ 15,148
Interest on investment securities	576	351
Other interest income	121	118
Total Interest Income	16,881	15,617
Interest Expense		
Deposits	1,385	2,262
Borrowings	1,059	1,212
Total Interest Expense	2,444	3,474
Net interest income	14,437	12,143
Provision for Loan Losses	334	1,287
Net Interest Income After Provision for Loan Losses	14,103	10,856
Non-Interest Income		
Service charges and activity fees	225	213
Net gains on sales of loans	96	60
Other income	634	307
Total Non-Interest Income	955	580
Non-Interest Expenses		
Salaries and employee benefits	6,228	5,182
Occupancy and equipment	607	493
Legal and professional fees	651	514
Advertising and promotion	64	109
Loan expenses	91	130
Data processing costs	1,352	1,124
Supplies, printing and postage	100	91
Telephone	34	37
Entertainment	77	53
Mileage and tolls	25	17
Insurance	45	40
FDIC insurance premiums	210	169
Dues and subscription	97	81
Shares tax	295	247
Other	384	237
Total Non-Interest Expense	10,260	8,524
Income before income taxes	4,798	2,912
Income Taxes	(848)	(637)
Net Income Available to Common Stockholders	$ 3,950	$ 2,275
Basic earnings per common share	$ 2.03	$ 1.17
Diluted earnings per common share	$ 1.94	$ 1.14
Weighted Average Common Shares Outstanding:		
Basic	1,950,095	1,950,077
Diluted	2,033,095	1,999,077

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Comprehensive Income
(in thousands)

Years Ended December 31,		**2021**		2020
Net Income	**$**	**3,950**	$	2,275
Other Comprehensive (loss)/gain				
Unrealized holding (loss)/gain arising on securities available-for-sale		**(323)**		391
Tax effect		**68**		(80)
Other comprehensive (loss)/gain		**(255)**		311
Total Comprehensive Income	**$**	**3,695**	$	2,586

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Stockholders' Equity
(in thousands, except per share data)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2020	$ 1,950	14,212	3,480	136	19,778
Net income			2,275		2,275
Other comprehensive income				311	311
Share-based compensation		48			48
Cash dividends on common stock at $0.20 per share			(390)		(390)
Balance, December 31, 2020	1,950	$ 14,260	$ 5,365	$ 447	$ 22,022
Net income			3,950		3,950
Other comprehensive loss				(255)	(255)
Share based compensation expense		56			56
Cash dividends on common stock of $0.30 per share			(585)		(585)
Exercise of stock options		2			2
Balance, December 31, 2021	$ 1,950	$ 14,318	$ 8,730	$ 192	$ 25,190

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	**2021**	2020
Cash Flows from Operating Activities		
Net income	**$ 3,950**	$ 2,275
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**334**	1,287
Depreciation and amortization	**313**	290
Share-based compensation	**56**	48
Deferred income taxes	**(40)**	(277)
Net amortization of investment securities	**37**	28
Earnings on bank owned life insurance	**(201)**	(60)
Net realized gains on sale of loans held for sale	**(96)**	(60)
Sale of non-SBA loans held for sale	**3,504**	-
Origination of non-SBA loans held for sale	**-**	(3,745)
Origination of SBA loans held for sale	**-**	(736)
Proceeds from sale of SBA loans held for sale	**-**	796
Amortization of debt issuance costs	**68**	23
Decrease/increase) in accrued interest receivable	**52**	(377)
Decrease/(increase) in other assets	**(648)**	90
Increase/(decrease) in other liabilities	**(238)**	406
Net Cash Provided by/(Used In) Operating Activities	**7,091**	(12)
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Purchases	**(15,175)**	(5,150)
Proceeds from maturities, calls and principal pay downs	**4,033**	3,291
Net increase in loans	**(17,882)**	(41,774)
Purchase of restricted stock	**(213)**	(1,054)
Purchases of premises and equipment	**(268)**	(264)
Proceeds from BOLI	**358**	-
Purchase of bank owned life insurance	**-**	(4,000)
Net Cash Used in Investing Activities	**(29,147)**	(48,951)
Cash Flows from Financing Activities		
Net increase in deposits	**57,336**	89,219
Net proceeds from issuance of subordinated debt	**-**	9,759
Payments to retire subordinated debt	**(5,000)**	-
Exercise of stock options	**2**	-
Cash dividends on common stock	**(585)**	(390)
Advances of long-term borrowing	**-**	7,500
Net (decrease)/increase in short-term borrowing	**(40,981)**	40,981
Net Cash Provided by Financing Activities	**10,772**	147,069
Net (decrease)/increase in cash and cash equivalents	**(11,284)**	98,106
Cash and Cash Equivalents, Beginning	**116,276**	18,170
Cash and Cash Equivalents, Ending	**$ 104,992**	$ 116,276
Supplementary Cash Flows Information		
Income taxes paid	**$ 1,064**	$ 789
Interest paid	**$ 2,637**	$ 3,390

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of The Victory Bancorp, Inc. (the "Corporation") are prepared on the accrual basis and include the accounts of The Victory Bancorp, Inc. and its wholly-owned subsidiary, The Victory Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

In preparing these consolidated financial statements, the Bank evaluated the events and transactions that occurred from December 31, 2021 through March 28, 2022 the date these consolidated financial statements were available for issuance.

Organization and Nature of Operations

The Victory Bancorp, Inc. is a registered bank holding company, which owns 100% of the outstanding capital stock of The Victory Bank. The Corporation was incorporated under the laws of the State of Pennsylvania in 2009 for the purpose of serving as The Victory Bank's holding company. The holding company structure provides flexibility for growth through expansion of core business activities and access to varied capital raising operations. The Corporation's primary business activity consists of ownership of all of the outstanding stock of The Victory Bank. As of December 31, 2021, the Corporation had 347 common stockholders of record.

The Bank is a Pennsylvania chartered commercial bank which was chartered in January 2008. The Bank operates a full-service commercial and consumer banking business in Montgomery County, Pennsylvania. The Bank's focus is on small- and middle-market commercial and retail customers. The Bank originates secured and unsecured commercial loans, commercial mortgage loans, consumer loans and construction loans and does not make subprime loans. The Bank also offers revolving credit loans, small business loans and automobile loans. The Bank offers a variety of deposit products, including demand and savings deposits, regular savings accounts, investment certificates and fixed-rate certificates of deposit. As a state-chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation.

Operating, Accounting and Reporting Considerations related to COVID-19

The coronavirus (COVID-19) pandemic has negatively impacted the global economy, disrupted global supply chains and increased unemployment levels. The resulting temporary closure of many businesses and the implementation of social distancing and sheltering-in-place policies have impacted and may continue to impact many of the Corporation's customers. While the full effects of the pandemic remain unknown, the Corporation has provided hardship relief assistance to customers, including the consideration of various loan payment deferral options, and encouraged customers to reach out for assistance to support their individual circumstances.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States. Certain provisions within the CARES Act encourage financial institutions to practice prudent efforts to work with borrowers impacted by COVID-19. Under these provisions, which the Corporation has applied, loan modifications deemed to be COVID-19-related are not considered a troubled debt restructuring ("TDR") if the loan was not more than 30 days past due as of December 31, 2019, and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020.

In December 2020, this CARES Act provision was extended to January 1, 2022. The banking regulators issued similar guidance, which also clarified that a COVID-19-related modification would not meet the requirements under accounting principles generally accepted in the United States of America to be a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification is considered to be short-term. The Corporation generally offered impacted borrowers loan payment deferrals of 90 days in duration. The Corporation offered subsequent 90-day deferrals if requested by the borrower. Any deferred amounts were generally added by the Corporation to the payoff balance of the loan at maturity. Most of the deferral requests occurred during the second and third quarters of 2021. As of December 31, 2021, the Corporation had remaining payment deferrals of $6,000.

Additionally, the Corporation is a lender for the Small Business Administration's (“SBA”) Paycheck Protection Program ("PPP"), a program under the CARES Act, and other SBA, Federal Reserve or United States Treasury programs that have been created in response to the pandemic and may be a lender under such programs created in the future. These programs are recent and their effects on the Corporation’s business remain uncertain. The Corporation originated $39.6 million and $60.3 million in PPP loans during 2021 and 2020. The Corporation began accepting and transmitting PPP loan forgiveness documentation to the SBA in the third quarter of 2020 and had received $60.7 million and $17.5 million in PPP forgiveness payoffs from the SBA during December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the Corporation had 224 and 435 PPP loans outstanding totaling approximately $21.7 million and $42.8 million, respectively.

In December 2020, the Bipartisan-Bicameral Omnibus COVID Relief Deal, included as a component of appropriations legislation, and the Economic Aid Act were enacted to provide economic stimulus to individuals and businesses in further response to the economic distress caused by the COVID-19 pandemic. Among other things, the legislation includes stimulus payment for individuals under certain income thresholds, extension of enhanced unemployment benefits, a rental assistance program, an extension of the eviction moratorium, targeted funding related to public health measures and small business relief, which included additional funds for PPP loans.

The extent to which the COVID-19 pandemic has a further impact the Corporation's business, results of operations, and financial condition, as well as the Corporation's regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the COVID-19 pandemic and actions taken by governmental authorities and other third parties in response to the COVID-19 pandemic.

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 year. 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, the fair value of financial instruments, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Montgomery County, Pennsylvania. Note 4 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its borrowers' ability to honor their contracts is influenced by the economy of Montgomery County and the surrounding areas.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, all of which mature within ninety days. Generally, federal funds are sold for one day periods.

Securities

Management determines the appropriate classification of debt investment securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums, or unaccreted discounts. At December 31, 2021 and 2020, the Corporation had no investment securities classified as held-to-maturity.

Securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available-for-sale. These securities are carried at fair value, which is determined by obtaining quoted market prices or matrix pricing. Unrealized gains and losses are excluded from earnings and are reported in other comprehensive loss. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Management evaluates securities for other-than-temporary impairment on at least an annual basis, and more frequently when economic or market concerns warrant such evaluation. Declines in fair value of debt securities below their 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, and (3) whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the debt security prior to any anticipated recovery in fair value.

U.S. Small Business Association (SBA) Lending Activities

The Bank originates loans to customers in its primary market area under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. The Bank generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. When the guaranteed portion of an SBA loan is sold, the premium received on the sale and the present value of future cash flows of the servicing assets, less the discount retained, are recognized in income.

SBA mortgage servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These mortgage servicing rights (MSRs) are initially measured at fair value at the date of sale and a gain is recognized equal to the fair value of MSRs on the date of sale. To determine the fair value of mortgage servicing rights, the Bank uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses.

These MSRs are amortized in proportion to, and over the period of, the estimated net servicing income or net servicing loss and measured for impairment based on fair value at each reporting date. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates. The amortization is recorded in other income within the Consolidated Statements of Income.

Serviced loans sold to others are not included in the accompanying consolidated balance sheets. Income (losses) and fees collected for loan servicing are included in non-interest income.

The foregoing discussion relates to the Corporation's activities in the SBA's Section 7(a) and similar programs. For information on the Corporation's participation in the SBA's PPP program, see Note 4 below.

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 Corporation is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into PPP, commercial and consumer loans. Commercial loans consist of the following classes: commercial term, commercial mortgage, commercial lines of credit, and construction. Consumer loans consist of the following classes: home equity and other consumer.

The Company’s PPP loans under the CARES Act are fully guaranteed by the SBA and thus have minimal risk.

The Bank’s credit policies determine advance rates against the different forms of collateral that can be pledged against commercial term, lines of credit and mortgage 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 inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans 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. Commercial mortgage 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 of or lease of the subject property. Commercial mortgage loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Construction lending is generally considered to involve high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property’s value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor.

Home equity loans are secured by the borrower’s residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Risks associated with home equity loans in second lien positions are greater than those in first position due to the subordinate nature of the loans.

Other consumer loans include installment loans, car loans, and overdraft lines of credit. The majority of these loans are unsecured. Risks associated with other consumer loans tend to be greater due to unsecured position or the rapidly depreciating nature of the underlying assets.

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 (“allowance”) 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 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, 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.

The allowance 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 Corporation's past loan loss experience, 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.
4. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
6. Effect of external factors, such as competition and legal and regulatory requirements.
7. Experience, ability and depth of lending management staff.

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 loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 term, commercial mortgage, commercial lines of credit and commercial construction 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 estimated fair values of substantially all of the Corporation's impaired loans are measured based on the estimated fair value of the loan's collateral.

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 agings 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation 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, significant payment delays 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 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, are evaluated quarterly 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 criticized 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.

Banking regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation 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.

Loans held for sale

Loans originated or purchased by the Corporation with the intent to sell them in the secondary market are carried either at the lower of cost or fair value, determined in the aggregate. These loans are generally sold on a non-recourse basis with servicing released. Gains and losses on the sale of loans accounted for at the lower of cost or fair value are recognized in earnings based on the difference between the proceeds received and the carrying amount of the loans, inclusive of deferred origination fees and costs, if any.

As a result of changes in events and circumstances or developments regarding management's view of the foreseeable future, loans not originated or purchased with the intent to sell may subsequently be designated as held for sale. These loans are transferred to the held-for-sale portfolio at the lower of amortized cost or fair value. When the amortized cost of the loan exceeds its fair value at the date of transfer to the held-for-sale portfolio, the excess will be recognized as a charge against the allowance for loan losses to the extent the loan's reduction in fair value has already been provided for in the allowance for loan losses. Any subsequent lower of cost or fair value adjustments are recognized as a valuation allowance with charges recognized in non-interest income. At December 31, 2021 and 2020 the fair value of loans held for sale exceeded the amortized cost and such no valuation allowance was recorded.

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 Corporation, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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. Amortization of leasehold improvements is recorded over the shorter of the estimated useful life or lease term.

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 $60,000 common stock of the Atlantic Community Bankers Bank ("ACBB") at December 31, 2021 and 2020, Federal Home Loan Bank of Pittsburgh ("FHLB") stock totaling $1,053,000 and $840,000 at December 31, 2021 and 2020, and Federal Reserve Bank ("FRB") stock of $628,000 at 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 current period taxable income. The Corporation determines deferred income taxes using the asset and 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 Corporation evaluates the carrying amount of its deferred tax assets on a quarterly basis or more frequently, if necessary, in applying the criteria set forth therein to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence.

In conducting the deferred tax asset analysis, the Corporation believes it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by financial institutions and their ability to absorb potential losses are important distinctions to be considered for bank holding companies like the Corporation. Most importantly, it is also important to consider that net operating losses for federal income tax purposes can generally be carried forward for a period of twenty years. In order to realize deferred tax assets, the Corporation must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, the Corporation carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. As a result of continued profitability and taxable income in recent years, the Corporation has concluded that no valuation allowance is required for the deferred tax assets at December 31, 2021 and 2020.

The Corporation 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.

There were no uncertain tax positions as of December 31, 2021 and 2020.

The Corporation recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized during the years ended December 31, 2021 or 2020.

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

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 stockholders' equity section of the consolidated balance sheets, such items along with net income are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated balance sheets when they are funded.

Employee Benefit Plan

The Bank has established a 401(k) plan ("the Plan"). Under the Plan, all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions. For the years ended December 31, 2021 and 2020, expense recorded in salaries and employee benefits attributable to the Plan amounted to $163,000 and $151,000, respectively.

Share-Based Compensation

The Bank recognizes the cost of employee and organizer services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award.

Compensation cost for all stock awards is calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the fair value of the Corporation's common stock at the date of grant is used for restricted stock awards. Because of the insignificant amount of forfeitures, the Corporation has experienced, forfeitures are recognized as they occur.

Earnings per Share

Basic earnings per share ("EPS") represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes all potentially dilutive common shares outstanding during the period. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method.

The following table sets forth the composition of basic and diluted earnings per share.

Years Ended December 31,	**2021**	2020
	(In thousands, except for share and per share data)	
Basic EPS		
Net income available to common stockholders	**$ 3,950**	$ 2,275
Basic weighted average shares outstanding	**1,950,095**	1,950,077
Plus: effect of dilutive options	**83,000**	49,000
Diluted weighted average common shares	**2,033,095**	1,999,077
Earnings per share:		
Basic	**$ 2.03**	$ 1.17
Diluted	**$ 1.94**	$ 1.14

2. Restrictions on Cash and Due from Banks

In return for services obtained through correspondent banks, the Bank is required to maintain non-interest-bearing cash balances in those correspondent banks. Compensating balances totaled $1,000,000 at December 31, 2021 and 2020, included in cash and due from banks.

3. Securities Available-for-Sale

The amortized cost and fair value of securities as of December 31, 2021 and 2020 is summarized as follows (in thousands):

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 7,970	$ 76	$ (29)	$ 8,017
Treasury	4,981	-	(6)	4,975
Residential mortgage-backed securities	10,894	233	(31)	11,096
	$ 23,845	$ 309	$ (66)	$ 24,088

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 5,150	$ 220	$ -	$ 5,370
Residential mortgage-backed securities	7,590	346	-	7,936
	$ 12,740	$ 566	$ -	$ 13,306

Residential mortgage-backed securities are comprised of FHLMC, FNMA and GNMA pass through certificates at December 31, 2021 and 2020.

There were no investment securities with unrealized losses at December 31, 2020. The unrealized losses and related fair value of investment securities available for sale with unrealized losses less than 12 months and those with unrealized losses 12 months or longer as of December 31, 2021, are as follows (in thousands):

December 31, 2021	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate Bonds	$ 2,891	$ 29	$ -	$ -	$ 2,891	$ 29
Treasury	4,975	6	-	-	4,975	6
Residential mortgage-backed securities	4,463	31	-	-	4,463	31
Total	$ 12,329	$ 66	$ -	$ -	$ 12,329	$ 66

The unrealized loss position at December 31, 2021 is the result of interest rate changes and does not represent other than temporary impairment of the security.

The amortized cost and fair value of securities as of December 31, 2021 and 2020, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the securities may be called without any penalties (in thousands):

	2021		2020	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Due in one year or under	**$ -**	**$ -**	$ -	$ -
Due after one year through five years	**10,351**	**10,421**	-	-
Due after five years through ten years	**2,600**	**2,571**	5,150	5,370
Mortgage-backed investment securities	**10,894**	**11,096**	7,590	7,936
	$ 23,845	**$ 24,088**	$ 12,740	$ 13,306

4. Loans Receivable

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

	2021	2020
PPP	**$ 21,765**	$ 42,761
Term	**33,215**	22,524
Commercial mortgage	**155,413**	131,459
Commercial line	**22,335**	19,444
Construction	**45,315**	43,000
Home equity	**5,062**	7,735
Consumer	**22,991**	21,271
Total loans	**306,096**	288,194
Deferred (fees) cost, net	**(1,475)**	(1,435)
Allowance for loan losses	**(3,455)**	(3,141)
Net Loans	**$ 301,166**	$ 283,618

Allowance for Loan Losses and Recorded Investment in Loans Receivable

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2021 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 (in thousands):

	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
PPP	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial term	287	-	8	67	354	22	332
Commercial mortgage	1,595	-	-	110	1,713	130	1,583
Commercial line	334	-	-	124	458	-	458
Construction	496	-	-	(20)	476	77	399
Home equity	158	-	-	(49)	109	-	109
Consumer	271	28	-	102	345	83	262
	$ 3,141	$ 28	$ 8	$ 334	$ 3,455	$ 312	$ 3,143

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
PPP	$ 21,765	$ -	$ 21,765
Commercial term	33,215	22	33,193
Commercial mortgage	155,413	289	155,124
Commercial line	22,335	-	22,335
Construction	45,315	77	45,238
Home equity	5,062	-	5,062
Consumer	22,991	83	22,908
	$ 306,096	$ 471	$ 305,625

Included in the tables above are PPP loans which are fully guaranteed by the SBA and therefore, have no associated allowance.

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The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 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, 2020 (in thousands):

	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
PPP	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial term	227	80	9	131	287	24	263
Commercial mortgage	889	-	8	698	1,595	137	1,458
Commercial line	234	250	-	350	334	124	210
Construction	443	50	4	99	496	-	496
Home equity	153	-	-	5	158	-	158
Consumer	267	-	-	4	271	25	246
	$ 2,213	$ 380	$ 21	$ 1,287	$ 3,141	$ 310	$ 2,831

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
PPP	$ 42,761	$ -	$ 42,761
Commercial term	22,524	24	22,500
Commercial mortgage	131,459	569	130,890
Commercial line	19,444	466	18,978
Construction	43,000	106	42,894
Home equity	7,735	-	7,735
Consumer	21,271	37	21,234
	$ 288,194	$ 1,202	$ 286,992

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Impaired Loans

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2021 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ -	$ -	$ -
Commercial mortgage	115	115	-
Commercial line	-	-	-
Construction	-	-	-
Consumer	-	-	-
With an allowance recorded:			
Commercial term	$ 22	$ 52	$ 22
Commercial mortgage	174	174	130
Commercial line	-	-	-
Construction	77	77	77
Consumer	83	83	83
Total:			
Commercial term	$ 22	$ 52	$ 22
Commercial mortgage	289	289	130
Commercial line	-	-	-
Construction	77	77	77
Consumer	83	83	83

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ -	$ -
Commercial mortgage	122	30
Commercial line	-	-
Construction	-	-
Consumer	-	-
With an allowance recorded:		
Commercial term	$ 24	$ -
Commercial mortgage	232	-
Commercial line	117	-
Construction	91	-
Consumer	83	-
Total:		
Commercial term	$ 24	$ -
Commercial mortgage	354	30
Commercial line	117	-
Construction	91	-
Consumer	83	-

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2020 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ -	$ -	$ -
Commercial mortgage	127	127	-
Commercial line	-	-	-
Construction	-	-	-
Consumer	-	-	-
With an allowance recorded:			
Commercial term	$ 24	$ 54	$ 24
Commercial mortgage	442	442	137
Commercial line	466	466	124
Construction	106	106	-
Consumer	37	37	25
Total:			
Commercial term	$ 24	$ 44	$ 24
Commercial mortgage	569	569	137
Commercial line	466	466	124
Construction	106	106	-
Consumer	37	37	25

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ 291	$ 17
Commercial mortgage	-	-
Commercial line	-	-
Construction	-	-
Consumer	-	-
With an allowance recorded:		
Commercial term	$ 24	$ 1
Commercial mortgage	433	24
Commercial line	467	23
Construction	120	7
Consumer	37	-
Total:		
Commercial term	$ 24	$ 1
Commercial mortgage	724	41
Commercial line	467	23
Construction	120	7
Consumer	37	-

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Loans Receivable on Nonaccrual Status

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

	2021	2020
PPP	**$ -**	$ -
Commercial term	**22**	24
Commercial mortgage	**90**	100
Commercial line	**-**	-
Construction	**77**	-
Home Equity	**-**	-
Consumer	**83**	37
	$ 272	$ 161

Interest income recognized on loans on non-accrual status during the years ended December 31, 2021 and 2020 was $105,000 and $15,000, respectively. Additional interest income that would have been recognized on non-accrual loans, had the loans been performing in accordance with the original terms of their contracts totaled $14,000 and $8,000 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, and 2020, there are no foreclosed assets. As of December 31, 2021, and 2020, the Company has not initiated formal foreclosure proceedings on any consumer residential mortgages.

Credit Quality Indicators

The following tables present 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**
PPP	**$ 21,765**	**$ -**	**$ -**	**$ -**	**$ 21,765**
Commercial term	**33,193**	**-**	**-**	**22**	**33,215**
Commercial mortgage	**152,216**	**1,142**	**2,055**	**-**	**155,413**
Commercial line	**21,501**	**-**	**834**	**-**	**22,335**
Construction	**45,238**	**-**	**77**	**-**	**45,315**
Home equity	**5,062**	**-**	**-**	**-**	**5,062**
Consumer	**22,908**	**-**	**-**	**83**	**22,991**
	$ 301,883	**$ 1,142**	**$ 2,966**	**$ 105**	**$ 306,096**

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
PPP	$ 42,761	$ -	$ -	$ -	$ 42,761
Commercial term	22,374	42	84	24	22,524
Commercial mortgage	128,502	684	2,273	-	131,459
Commercial line	18,838	140	466	-	19,444
Construction	42,894	-	106	-	43,000
Home equity	7,735	-	-	-	7,735
Consumer	21,234	-	37	-	21,271
	$ 284,338	$ 866	$ 2,966	$ 24	$ 288,194

Age Analysis of Past Due Loans Receivables

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):

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
PPP	$ -	$ -	$ -	$ -	$ 21,765	$ 21,765	$ -
Commercial term	-	-	22	22	33,193	33,215	-
Commercial mortgage	157	-	90	247	155,166	155,413	-
Commercial line	-	-	-	-	22,335	22,335	-
Construction	-	-	-	-	45,315	45,315	-
Home equity	2	-	-	2	5,060	5,062	-
Consumer	79	3	83	165	22,826	22,991	-
	$ 238	$ 3	$ 195	$ 436	$ 305,660	$ 306,096	$ -

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
PPP	$ -	$ -	$ -	$ -	$ 42,761	$ 42,761	$ -
Commercial term	-	-	24	24	22,500	22,524	-
Commercial mortgage	-	-	100	100	131,359	131,459	-
Commercial line	-	-	-	-	19,444	19,444	-
Construction	-	-	-	-	43,000	43,000	-
Home equity	-	-	-	-	7,735	7,735	-
Consumer	-	-	37	37	21,234	21,271	-
	$ -	$ -	$ 161	$ 161	$ 288,033	$ 288,194	$ -

Modifications

The Corporation 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 which is then identified as a troubled debt restructuring (TDR). The Corporation may modify loans through rate reductions, below market rates, 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 to be impaired loans for purposes of calculating the Corporation's allowance for loan losses and presentation of loans.

The Corporation 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.

In response to the hardships arising from the pandemic, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed by the President of the United States. Certain provisions within the CARES Act encouraged financial institutions to practice prudent efforts to work with borrowers impacted by COVID-19. Under these provisions, which the Company applied, loan modifications deemed to be COVID-19-related are not considered a troubled debt restructuring (“TDR”) if the loan was not more than 30 days past due as of December 31, 2019 and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. This CARES Act provision was subsequently extended to January 1, 2022. The banking regulators issued similar guidance, which also clarified that a COVID-19-related modification would not meet the requirements under GAAP to be a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification is considered to be short-term. During 2021 and 2020, the Company generally offered impacted borrowers loan payment deferrals of 90 days in duration, with a deferral renewal if requested.

There was one performing troubled debt restructurings at December 31, 2021 and 2020. There were zero defaults within twelve months of restructuring during the years ended December 31, 2021 and 2020. The one performing restructured loan totaled $25,000 and $27,000, December 31, 2021 and 2020, respectively, which was a commercial mortgage.

Loan Sales

The Corporation originates and sells loans secured by the SBA. The Bank retains the unguaranteed portion of the loan and the servicing on the loans sold and receives a fee based upon the principal balance outstanding. During the years ended December 31, 2021 and 2020, the Bank sold SBA loans held for sale for total proceeds of $0 and $796,000, respectively. The SBA loan sales resulted in realized gains of $0 and $60,000 for the years ended December 31, 2021 and 2020, respectively. There were no SBA loans held for sale at December 31, 2021 and 2020.

During 2021, the Corporation sold non-SBA loans for total proceeds of $3,504,000 and recorded a gain of $96,000.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in the servicing assets included in the other assets on the balance sheet relate primarily to changes in prepayments that result from shifts in interest rates. The unpaid principal balances of loans serviced for others were $5,627,000 and $7,243,000 at December 31, 2021 and 2020, respectively. The following summarized the activity pertaining to servicing rights using the amortization method for the years ended December 31, 2021 and 2020 (in thousands):

	2021	2020
Balance, beginning	$ **109**	$ 104
Additions	**-**	14
Cash payoffs and principal amortization	**(30)**	(9)
Balance, Ending	$ **79**	$ 109

For the years ended December 31, 2021, and 2020, the Corporation recorded servicing fee income of $59,000 and $67,000 respectively which is presented in interest and fees on loans on the Consolidated Statements of Income.

The following presents the fair value and key weighted average assumptions used in determining the fair value of the Company's servicing asset as of December 31, 2021, and 2020 (dollars in thousands):

	2021	2020
Fair Value	$ **80**	$ 110
Discount Rate	**14.88%**	13.12%
Weighted average prepayment speeds	**17.89%**	19.15%
Cost to service	**0.40%**	0.40%

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	10 - 20 years	$ **1,015**	$ 1,000
Computer equipment and software	3 - 5 years	**1,387**	1,337
Automobiles	3 years	**203**	197
Bank unique equipment	5 years	**257**	245
Furniture, fixtures and equipment	3 - 10 years	**404**	348
Building	40 years	**1,687**	1,687
Land		**1,200**	1,200
		6,153	6,014
Accumulated depreciation		**(2,926)**	(2,742)
		$ **3,227**	$ 3,272

Depreciation and amortization expense charged to operations amounted to $313,000 and $290,000 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, non-interest bearing	**$ 71,198**	$ 61,357
Demand interest bearing	**73,767**	57,820
Money market accounts	**113,865**	98,352
Savings accounts	**92,998**	83,663
Time, $250 and over	**16,867**	14,625
Time, other	**25,654**	21,196
	$ 394,349	$ 337,013

There were no brokered deposits included in demand interest bearing or money market deposits as of December 31, 2021 and 2020.

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

Years ending December 31,	
2022	$ 26,663
2023	8,776
2024	3,623
2025	1,372
2026	2,087
Thereafter	-
	$ 42,521

The Corporation had no brokered deposits included in time deposits at December 31, 2021 and 2020.

7. Borrowings

The Corporation has a $1,000,000 unsecured line of credit with a correspondent bank with an interest rate of 3.75%. There was no outstanding balance as of December 31, 2021 and 2020, respectively.

The Bank has a $1,500,000 unsecured federal funds overnight line of credit with a correspondent bank. There was no outstanding balance as of December 31, 2021 and 2020, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). At December 31, 2021, the Bank has a total borrowing capacity with the FHLB of $128.1 million. FHLB advances at

December 31, 2021 totaled $10,500,000, which were long term with a weighted-average interest rate of 1.28% maturing through 2025.

At December 31, 2020, the Bank had a total borrowing capacity with the FHLB of $100.3 million. FHLB advances at December 31, 2020 totaled $10,500,000, which were long term with a weighted-average interest rate of 1.28% maturing through 2025.

Long-term borrowings at December 31, 2021 and 2020 consisted of FHLB and Federal Reserve borrowings with the following maturity dates and interest rates:

	2021	2020
PPP Liquidity Facility Advances at 0.35%	**$ -**	$ 40,981
Fixed note at 0.99%, maturing on March 4, 2022	**3,750**	3,750
Fixed note at 1.84%, maturing on August 6, 2024	**3,000**	3,000
Fixed note at 1.13%, maturing on March 4, 2025	**3,750**	3,750
	$ 10,500	$ 51,481

Beginning in second quarter 2020, the Corporation began participating in the PPPLF, in which Federal Reserve Banks extend non-recourse loans to institutions that are eligible to make PPP loans. Only PPP loans that are guaranteed by the SBA pursuant to the PPP, with respect to both principal and interest that are originated or purchased by an eligible institution, may be pledged as collateral to the Federal Reserve Banks. There were no advances outstanding with the FRB at December 31, 2021. Advances from the FHLB are secured by FHLB stock and certain assets of the Corporation.

Subordinated Debt

On October 15, 2015, the Corporation closed a pooled private offering of $5 million of subordinated debt, net of offering costs of $86,000. Unamortized offering costs were $0 and $42,000 at December 31, 2021 and 2020, respectively. The maturity date was October 1, 2025 and the interest rate was 7.35%. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $100,000, on or after October 1, 2020, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Subordinated Loan Agreement. In January 2021, the Corporation paid off the subordinated debt of $5 million.

On March 14, 2019, the Corporation closed a pooled private offering of $3 million of subordinated debt, net of offering costs of $25,000. Unamortized offering costs were $18,000 and $20,000 at December 31, 2021 and 2020, respectively. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $100,000, on or after March 14, 2024, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 14, 2029. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Subordinated Loan Agreement.

The subordinated debt may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures had a fixed rate of interest of 6.5% through March 14, 2024, at which time the interest rate will float quarterly at LIBOR or the LIBOR Benchmark plus 390 basis points until the debt is paid off or matures. The debt is subordinated to the claims of general creditors, is unsecured, and is ineligible as collateral for a loan by the Company.

On June 23, 2020, the Corporation closed a pooled private offering of $10 million of subordinated debt, net of offering costs of $241,000. Unamortized offering costs were $211,000 and $229,000 at December 31, 2021 and 2020, respectively. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $100,000, on or after June 30, 2025, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on June 30, 2030. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Subordinated Loan Agreement.

The subordinated debt may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures had a fixed rate of interest of 6.25% through June 30, 2025, at which time the interest rate will bear interest at a rate equal to the 3-month Secured Overnight Financing rate ("SOFR") plus 613 basis points until the debt is paid off or matures. The debt is subordinated to the claims of general creditors, is unsecured, and is ineligible as collateral for a loan by the Company.

8. Federal Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2021 and 2020 are as follows (in thousands):

		2021		2020
Current	**$**	**888**	$	914
Deferred		**(40)**		(277)
	$	**848**	$	637

A reconciliation of the statutory federal income tax at a rate of 21% to federal income tax expense included in the statements of income for the years ended December 31, 2021 and 2020 are as follows (in thousands):

		2021		2020
Federal income tax at statutory rate	**$**	**1,008**	$	612
Bank owned life insurance income		**(107)**		(12)
Non-deductible dues		**5**		7
Non-deductible meals and entertainment		**9**		9
Income from partnerships		**5**		5
Other		**(72)**		16
	$	**848**	$	637

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

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 473	$ 382
Organization and start-up costs	12	23
Nonqualified stock options	43	29
Unearned PPP loan fees	204	244
Total deferred tax assets	732	678
Deferred tax liabilities:		
Depreciation	(112)	(95)
Deferred loan costs	(110)	(106)
Servicing asset	(17)	(24)
Unrealized gain on available-for-sale securities	(51)	(119)
Total deferred tax liabilities	(290)	(344)
Net Deferred Tax Asset, Included in Other Assets	$ 442	$ 334

9. Transactions with Executive Officers, Directors and Principal Stockholders

The Corporation 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 stockholders, their immediate families and affiliated companies (commonly referred to as related parties). There were loans receivable from related parties totaling $3,719,000 and $3,891,000 at December 31, 2021 and 2020, respectively. Loans originated for related parties totaled $260,000 and $83,000 and payments received were $432,000 and $826,000 for the years ended December 31, 2021 and 2020, respectively. Deposits of related parties totaled $4,018,000 and $3,436,000 as of December 31, 2021 and 2020, respectively.

10. Share-Based Compensation

In 2013, the Board of Directors adopted the 2013 Equity Incentive Plan (“2013 Plan”). Under the 2013 Plan 228,000 shares were available to be issued in the form of performance awards that can be settled in stock or cash, restricted stock and restricted stock units, incentive stock options, non-qualified stock options, and stock appreciation rights. The awards under the plan vest over a period up to 7 years.

The following table summarizes stock option activity for the year ended December 31, 2021:

		Shares		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term
Outstanding, January 1, 2021	$	191,000	$	7.29	
Granted		-		-	
Exercised		285		7.25	
Forfeited		3,715		-	
Outstanding, December 31, 2021		187,000		7.29	
Exercisable, December 31, 2021		67,857	$	7.26	7

For shares issued in 2020 the Company determined the expected life of the stock options using the expected life of the stock options using a simplified method approach allowed for plain-vanilla share options. The risk-free interest rate is based on an average of the 7-year and 10-year treasury rate on July 1, 2020 and January 1, 2019, respectively. Expected volatility was determined using the calculated value method of an option pricing model that substitutes the historical volatility of an appropriate industry/sector index for the expected volatility.

There were no shares granted for the year ended December 31, 2021.

The following table presents the weighted-average assumptions used and the resulting weighted-average fair value of each option granted for the years ended December 31, 2020.

	2020
Dividend yield	1.56%
Expected volatility	46%
Risk-free interest rate	0.61%
Expected life (in years)	10.0
Assumed forfeiture rate	10%

At December 31, 2021 and 2020, the intrinsic value of the 187,000 and 191,000 options outstanding was $1,081,340 and $470,500, respectively.

Information regarding share-based compensation for the year ended December 31, 2021 is set forth below:

		2021
Stock based compensation expense recognized	**$**	**55,000**
Number of unvested stock options		**119,000**
Amount remaining to be recognized as expense	**$**	**230,000**

The stock based compensation recognized in earnings in 2021 and 2020 was $56,000 and $48,000, respectively. The remaining amount of $230,000 will be recognized ratably as expense through 2027.

Victory Bank entered into a Supplemental Executive Retirement Plan (SERP) with the CEO that provides annual retirement benefits starting December 31, 2018 and continuing until the earlier of a Separation of Service or January 1, 2028. The SERP requires the Bank to provide an Annual Contribution and Interest Credit on each December 31. The Bank accrued $233,000 and $170,000 SERP liability as of December 31, 2021 and December 31, 2020, respectively which is included in Accrued interest payable and other liabilities. The related expense is recorded in Salaries and employee benefits.

11. Financial Instruments with Off-Balance Sheet Risk

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

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

The Corporation had the following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2021 and 2020 (in thousands):

	2021	2020
Unfunded commitments under lines of credit	**$ 68,368**	$ 66,394
Unfunded commitments under letters of credit	**912**	501

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. The allowance for credit losses associated with these commitments is not material at December 31, 2021.

12. 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 consolidated 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 BASEL III capital requirements that became effective January 1, 2015. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Common Equity Tier 1 Capital, total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

The BASEL III rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

As of December 31, 2021, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt correction action. To be categorized as well capitalized, the Bank must maintain minimum Common Equity Tier 1 (“CET 1”), Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios as set forth in the table (in thousands):

December 31, 2021	**Actual**		**For Capital Adequacy Purposes**		**Minimum Capital Adequacy with Capital Buffer**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk weighted assets)	**$ 38,665**	13.0%	**$ ≥23,834**	≥8.0%	**$ ≥31,282**	≥10.5%	**$ ≥29,793**	≥10.0%
Tier 1 capital (to risk weighted assets)	**$ 35,211**	11.8%	**$ ≥17,876**	≥6.0%	**$ ≥25,324**	≥8.5%	**$ ≥23,834**	≥8.0%
Common equity Tier 1 capital (to risk-weighted assets)	**$ 35,211**	11.8%	**$ ≥13,407**	≥4.5%	**$ ≥20,855**	≥7.0%	**$ ≥19,365**	≥6.5%
Tier 1 capital (to average assets)	**$ 35,211**	7.7%	**$ ≥18,261**	≥4.0%	**$ ≥18,261**	≥4.0%	**$ ≥22,826**	≥5.0%

December 31, 2020	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 33,621	12.9%	$ ≥20,890	≥8.0%	$ ≥27,418	≥10.5%	$ ≥26,113	≥10.0%
Tier 1 capital (to risk weighted assets)	$ 30,584	11.7%	$ ≥15,668	≥6.0%	$ ≥22,196	≥8.5%	$ ≥20,890	≥8.0%
Common equity Tier 1 capital (to risk-weighted assets)	$ 30,584	11.7%	$ ≥11,751	≥4.5%	$ ≥18,279	≥7.0%	$ ≥16,973	≥6.5%
Tier 1 capital (to average assets)	$ 30,584	8.0%	$ ≥15,255	≥4.0%	$ ≥15,255	≥4.0%	$ ≥19,069	≥5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations.

13. Fair Value Measurements

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

Determination of Fair Value

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability 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 Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments.

The definition of fair value focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

Fair Value Hierarchy

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

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

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 or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. During the years ended December 31, 2021 and 2020, the Corporation made no transfers between levels.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2021 and 2020 are as follows (in thousands):

December 31, 2021	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate Bonds	**$ 8,018**	**$ -**	**$ 8,018**	**$ -**
Treasury	**4,975**	**4,975**	**-**	**-**
Residential mortgage-backed securities	**11,096**	**-**	**11,096**	**-**

December 31, 2020	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Bonds	$ 5,370	$ -	$ 5,370	$ -
Residential mortgage-backed securities	7,936	-	7,936	-

Residential mortgage-backed securities are comprised of FHLMC, FNMA, and GNMA pass through certificates at December 31, 2021 and 2020.

The Corporation's available-for-sale investment securities, which includes debt securities and mortgage-backed securities, are reported at fair value. These securities are valued by an independent third party. The valuations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their evaluated pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which The Company has utilized Level 3 inputs to determine fair value (dollars in thousands):

	Qualitative Information about Level 3 Fair Value Measurements		
December 31, 2021	Fair Value	Valuation Techniques	Unobservable Input
Impaired loans	$ 44	**Appraisal of collateral**	**Liquidation expenses and valuation of property**

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

The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful. In addition to the fair value methods for available-for-sale securities and impaired loans, previously disclosed, the following methods and assumptions were used to estimate the fair values of a portion of the Corporation's assets and liabilities at December 31, 2021 and 2020:

The fair values, and related carrying amounts, of the Corporation's financial instruments were as follows at December 31, 2021 and 2020 (in thousands):

	2021		2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 104,992**	**$ 104,992**	$ 116,276	$ 116,276
Securities available-for-sale	**24,088**	**24,088**	13,306	13,306
Restricted investments in bank stocks	**1,741**	**1,741**	1,528	1,528
Loans, held for sale	**337**	**337**	3,745	3,745
Loans, net	**301,166**	**313,410**	283,618	289,796
Mortgage servicing asset	**79**	**79**	109	109
Accrued interest receivable	**1,041**	**1,041**	1,093	1,093
Liabilities				
Deposits	**394,349**	**400,421**	337,013	344,005
Short term borrowings	**-**	**-**	40,981	40,981
Long-term debt	**10,500**	**10,556**	10,500	10,692
Subordinated debt	**12,777**	**13,155**	17,709	17,709
Accrued interest payable	**27**	**27**	221	221
Off Balance Sheet Asset (Liability)				
Commitments to extend credit	**-**	**-**	-	-
Standby letters of credit	**-**	**-**	-	-

14. Revenue Recognition

Service Charges and Activity Fees on Deposits

Service charges on deposit accounts consist of monthly ATM Income, Wire Transfer Fees, Non-Sufficient Funds Charges, and other Deposit related fees. The Corporation's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Revenue is primarily transactional and recognized when earned, which is at the time the respective initiating transaction occurs and the related service charge is subsequently processed. Check orders and other deposit account related fees are largely transactional based, and therefore, the Corporation's performance obligation is satisfied, and related revenue recognized, when the service is provided. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Corporation's performance obligation for wire transfers and returned deposit fees, are largely satisfied, and related revenue recognized, when the services are rendered. Payment is typically received immediately or in the following month.

Other

Other fees are primarily comprised of Remote/Mobile Deposit Fees and other service charges. Other noninterest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of ASC Topic 606, *Revenue from Contracts with Customers* (Topic 606), for the years ended December 31, 2021 and 2020.

		2021		2020
Non-Interest Income				
In-scope of Topic 606				
Service Charges and Activity Fees on Deposits	**$**	**225**	$	213
Other		**22**		23
Non-Interest Income (in-scope of Topic 606)		**247**		236
Non-Interest Income (out-of-scope of Topic 606)		**708**		344
Total Non-Interest Income	**$**	**955**	$	580

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Corporation's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Corporation satisfies its performance obligation and revenue is recognized. The Corporation does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2021, and December 31, 2020, the Corporation did not have any contract balances.

Contract Acquisition Costs

The Corporation expenses contract acquisition costs immediately because the contract life is one year or less.

Our new Loan Production Office in Horsham is ready to welcome clients!

The Horsham Loan Office Team

(L to R) - Allison Davis, Dana Crouse, Jennifer Yoo, Jeremy Bucci, Rose Hoffman, H. Steen Woodland, (not pictured: Michael Aquaro)

ONE BILLION

VICTORY BANK

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Commitment | Decisions | Prosperity

In April 2021, The Victory Bank reached a significant growth milestone as it passed $1 billion in total loans to businesses and individuals since opening in 2008.

Thank you for voting us the best bank in Montgomery County.

FIVE YEARS in a row!

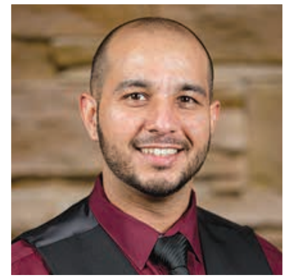
We exist to help our clients fulfill their visions and dreams.







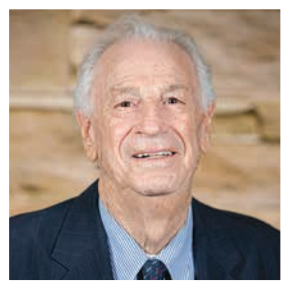














VICTORY BANCORP

OUR TEAM

COMMERCIAL TEAM

Alexander S. Kroll, Chief Lending Officer, President, Central Region, SVP

Tony D'Antonio, President, Western Region, SVP

H. Steen Woodland II, President, Eastern Region, SVP

Michael O. Aquaro, Commercial Relationship Manager, VP

Sarah Elaine Benson, Commercial Loan Portfolio Manager, AVP

Amanda Bucci, Relationship Assistant

Jeremy M. Bucci, Commercial Relationship Manager, VP

Kyle B. Carr, Executive Commercial Lending Assistant

Dana Crouse, Commercial Relationship Manager, VP

Allison Davis, Relationship Assistant

Rick Devine, Commercial Relationship Manager, VP

Joseph Giunta, Business Development

Rosalia Hoffman, Commercial Loan Portfolio Manager, Bank Officer

Michael Larimer, Commercial Relationship Manager, VP

John A. Pergolin Jr., Senior Commercial Relationship Manager, SVP

Vince Raffeo, Business Development

Mary Ann Riggins, Business Development

Michael Senico, Commercial Relationship Manager, VP

Bill Shipp, Commercial Relationship Manager, VP

Sharon Stofflet, Commercial Loan Portfolio Manager, Bank Officer

Leslie Unger, Synergy Specialist, Bank Officer

J. Jennifer Yoo, Commercial Relationship Manager, VP

OPERATIONS TEAM

Robert H. Schultz, Chief Financial Officer, Chief Operating Officer, Compliance Officer & Information Security Officer

Denise A. Bowie, Loan Operations Specialist

Chelsea Haas, Deposit Operations Specialist

Pam Havrilla, Loan Administration Manager, AVP

Mary Locricchio, Deposit Operations Manager, Bank Officer

Benjamin Major, Vice President of Operations

Charlotte Mathias, Loan Operations Specialist

Danielle L. Millar, Loan Documentation Manager, Bank Officer

Dana M. Perrott, Loan Documentation Specialist, Bank Officer

Diana Scott, BSA Officer, Bank Officer

Sally Shirk, Loan Operations Manager, Bank Officer

RETAIL TEAM

Shelly Stockmal, Victory Community Leader, SVP

Elizabeth A. Knott, Retail Branch and Care Center Manager, AVP

Amanda Agudio, Customer Care Representative

James A. Brandt, Courier

Stephanie Frederick, Retail Personal Banker & IRA Specialist, Bank Officer

Christine Popilock, Retail Personal Banker

Lindsey Smith, Retail Personal Banker

Ronnie Soor, Retail Personal Banker

INSTITUTIONAL DEPOSITS

Bill Vitiello, Director of Institutional Relationships and Marketing, VP

CREDIT TEAM

Jon Swearer, Chief Credit Officer, SVP

Debra Frederick, Senior Credit Analyst

Kimberly M. Grohosky, Credit Review Manager, Bank Officer

Aimee R. Kibbler, Credit Analyst

Warren Major, Junior Credit Analyst

Brian W. Meyer, Senior Credit Analyst, VP

ADMINISTRATIVE TEAM

Joseph W. Major, Bank Leader, President, CEO & Chairman

Nicole H. Crocker, Marketing & Corporate Communications Leader

Kelly L. Taylor, Executive Assistant/Investor Relations, AVP

In memory of…

Richard L. Graver, Chief Lending Officer

1961 – 2021

VICTORY
BANCORP

610-948-9000
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