GLEN BURNIE BANCORP

# 2021 Annual Report

# Glen Burnie Bancorp

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***Annual Meeting***
The Annual Meeting of Stockholders will be held virtually via the Internet at meetnow.global/MH9XQW7 for shareholders, from The Bank of Glen Burnie, 101 Crain Highway, SE, Glen Burnie, Maryland, on Thursday, May 12, 2022 at 2:00 p.m., Eastern Time.

Glen Burnie Bancorp's regular meeting of stockholders is held on the second Thursday in May of each year.

***Dividend Reinvestment Plan***
Common Stockholders participating in the Dividend Reinvestment Plan receive a 5% discount from market price when they reinvest their Glen Burnie Bancorp dividends in additional shares. To obtain a prospectus and authorization forms, contact the Transfer Agent.

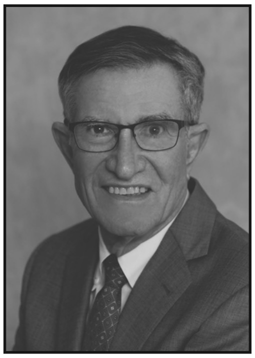
***Direct Deposit of Dividends***
The direct deposit program, which is offered at no-charge, provides for automatic deposit of quarterly dividends directly into a checking or savings account. For information regarding this program, contact the Transfer Agent.

***Annual Report on Form 10-K***
To obtain a copy of the company's Annual Report on Form 10-K for the year ended December 31, 2021 please contact the Transfer Agent.

***Independent Auditors***
TGM Group LLC, 955 Mount Hermon Road, Salisbury, Maryland 21804-5105
(December 31, 2020 financial results)

UHY LLP, Certified Public Accountants, 955 Mount Hermon Road, Salisbury, Maryland 21804-5105
(December 31, 2021 financial results)

# Letter to Our Shareholders



**John E. Demyan**

**John D. Long**

The Bank of Glen Burnie began a top-to-bottom assessment in 2016 that continued to drive our strategy and actions throughout 2021. During this dynamic period, we continue to anticipate changes in our customer demands and market competition, and we must be prepared to adeptly respond.

We remain keenly focused on our commitment to our local community and to providing critical financial services to Anne Arundel County and the surrounding area. The role of community banking has become more important than ever. Building relationships and strengthening our community is at the heart of everything we do.

On behalf of Glen Burnie Bancorp, we are pleased to report on the Company's financial performance in 2021.

Bancorp reported net income of $2.52 million, or $0.88 per basic and diluted common share for the year ended December 31, 2021, compared to $1.67 million, or $0.59 per basic and diluted common share for the same period in 2020. Net loans decreased by $44.4 million, or 17.59% during the twelve-month period ended December 31, 2021, compared to a decrease of $30.4 million, or 10.75% during the same period of 2020. On December 31, 2021, Bancorp had total assets of $442.1 million. Bancorp, the oldest and only independent commercial bank headquartered in Anne Arundel County, paid its 118th consecutive quarterly dividend on February 7, 2022.

Bancorp had a successful year in 2021 with growth in our balance sheet and earnings, and improved credit quality, while we continued to navigate the headwinds brought about by the pandemic and the resulting impact on economic and business conditions.

The main story for 2021 was the $975,000 release of "allowance for credit losses – loans" that was driven by improved credit performance, lower loan balances, and economic factors. Our margin continues to be under pressure as deposit growth driven by government stimulus has far outpaced net loan decreases. While overall loan growth was muted for much of the year given the high levels of liquidity throughout the financial system, we are beginning to see positive signs that indicate an increase in business activity and a return to more normalized loan demand. We enter 2022 with a strong balance sheet that is better positioned for rising interest rates, with capital levels and credit metrics that we believe position us well for continued success. Early in the fourth quarter of 2021 we shortened the duration of our investment bond portfolio in anticipation of higher interest rates, and we are pleased that our timing for this move has proven beneficial. Seizing more opportunities to safely deploy the excess funds entrusted to us by our customers remains our priority.

We continue to make investments in new products and technology. We proudly offer a comprehensive and competitive suite of banking products that meet the needs and desires of both consumers and area businesses. We are engaging in active and aggressive marketing efforts to reach these customers. Given the achievements of these major modernization milestones, we have a wonderful story to tell as we offer additional real value in terms of products and services. These improvements, coupled with our outstanding customer service levels, give us a leg up to capitalize on our wonderful market.

Small business lending remains highly competitive, and we are confident that our team, its leadership, and platform development will lead to more

# Letter to Our Shareholders

volume and profits from this area. Indirect automobile lending remains a core product for us, though extremely competitive. The pandemic and supply shortages have also severely impacted the new car segment. We are constantly working to improve our portfolio within the policy framework of the entire portfolio. With diminished industry car sales volume, our indirect automobile lending platform experienced lesser volume while improving credit metrics. As such, the outstanding balance of our overall loan portfolio decreased.

From an interest rate perspective, lower interest rates and a flat yield curve have impacted our lending margin, given that earnings performance is best in a rising rate environment.

From our credit quality perspective, we are pleased to report that our steadily improving credit metrics over the past five years are yielding anticipated benefits with a release of allowance for credit losses for the year.

## Key Values and Initiatives

Our key values do not change, old-fashioned customer service is in our DNA and has been part of our culture since our founding in 1949. We seek to know our customers' needs and wants and we do our best to constantly improve. This drives our efforts to improve customer service. Community service also remains part of this DNA. Our employees are actively involved in our local community through places of worship, Chambers of Commerce, service organizations, and recreational council sports teams for our youth.

Providing innovative services that customers want to use is also an integral part of this DNA. Customers want mobile and digital banking products, and we have enhanced our product offerings and the technology required to meet these demands.

We lend actively and prudently. We are committed to supporting the businesses and consumers in our market and ensuring that the quality of our portfolio remains high.

All of this requires constant attention and change, and our executive team is engaged and vigorous. All of us are focused on our customers, especially our customer service staff members, who have a clear feedback loop, which takes information about the customer and gets it to the executive who is responsible for the service. We are continually improving and constantly assessing our information systems for advances to keep up with the times.

The investments in technology made over the past few years have paid off very well for our Bank.

We have a wonderful story to tell focused on how our Bank navigated the COVID-19 crisis and the positive approach we have taken within the marketplace. We are communicating these strengths through our outreach and marketing efforts as we continue to build our brand within the Anne Arundel County market area.

We can assert that we are bringing real value to our retail and commercial customers.

## Our Strengths

In these very unusual times, our strength and resolve enable us to take exceptional care of our customers, employees, and communities.

In closing, we extend a special thank you to our employees. Our employees are the heart of our company, and we are extremely proud of how each of you has risen to the challenge during this difficult time.

Our core values truly shine. Time and time again, you have shown an unwavering commitment to adapt, be flexible, and go above and beyond to safely meet the needs of our customers. This commitment makes all the difference. Together we are providing critical financial services to our neighbors and community in these critical times.

To our Board of Directors, we thank you for your exceptional leadership and active engagement.

To our shareholders and customers, we thank you for your loyalty. We are resilient. Our people and our values have been the foundation for our success for more than 70 years. We have weathered many challenges, and will continue to do so - today, tomorrow, and for many more years to come.

Thank you for your continued support for The Bank of Glen Burnie and Glen Burnie Bancorp. We can assure you that the employees, management, and your Board of Directors are striving our utmost to be excellent stewards of your investment in our GREAT COMMUNITY BANK, THE BANK OF GLEN BURNIE.

Sincerely,

*John E. Demyan*

John E. Demyan
Chairman

*John D. Long*

John D. Long
President & CEO

# Glen Burnie Bancorp

## Officers

**John E. Demyan**
Chairman

**John D. Long**
President & Chief Executive Officer

**Frederick W. Kuethe, III**
Vice President

**Jeffrey D. Harris**
Treasurer

**Michelle R. Stambaugh**
Secretary

## Directors

**John E. Demyan**
Real Estate Investor

**Thomas Clocker**
Retired Local Businessman

**Andrew Cooch**
Partner, Law Office of Cooch & Bowers, P.A.

Owner/Director
Progressive Title Corporation

**Stanford D. Hess**
Partner, Neuberger, Quinn, Gielen, Rubin & Gibber, P.A.

Executive VP and Legal Counsel
Antwerpen Automotive Group

**Frederick W. Kuethe, III**
Aerospace Software Engineer
Northrop Grumman, Inc.

**John D. Long**
President & Chief Executive Officer
The Bank of Glen Burnie

**Charles F. (Derick) Lynch, Jr.**
President (Retired)
The General Ship Repair Corporation

**Julie A. Mussog**
Chief Financial Officer
Metropolitan Washington Council of Governments

**Joan M. Rumenap**
Accessible Resources for Independence - Special Projects Manager

By Their Side - Personal Advocate

**Mary Louise Wilcox**
Retired Teacher
Anne Arundel County Schools

*(as of December 31, 2021)*

## Brokers

**James S. Gibbons, Partner**
PIM Portfolio Manager
G & M Investment Group
133 Defense Hwy Suite 108
Annapolis, MD 21401-7015

Direct (410) 266-7116
Toll Free (888) 670-9920
Fax (410) 266-7334
jim.gibbons@wfafinet.com

**Robert D. Petty, Senior VP**
Morgan Stanley Smith Barney
410 Severn Avenue
Bldg. B, Suite 211
Annapolis, MD 21403-2533

Phone (410) 972-3211
Fax (410) 295-5800
robert.d.petty@morganstanley.com

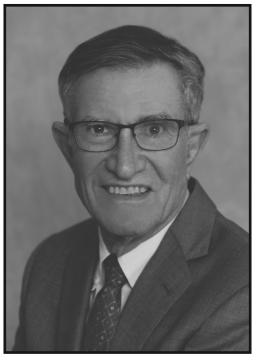
## Transfer Agent

**Computershare,**
**Shareholder Services**

PO Box 505000
Louisville, KY 40233-5000

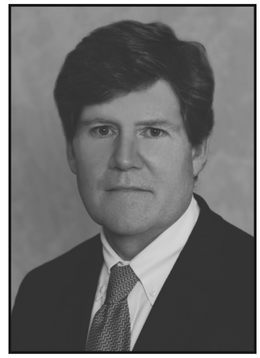
1-800-368-5948

# The Bank of Glen Burnie
## Executive Management and Senior Officers

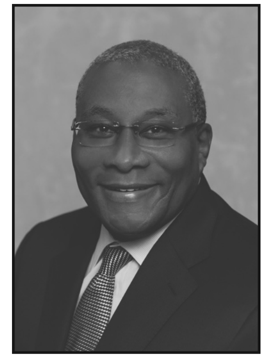


**John E. Demyan**
Chairman

**John D. Long**
President & Chief
Executive Officer



**Andrew J. Hines**
Executive
Vice President
Chief Lending Officer



**Jeffrey D. Harris**
Senior Vice President
Chief Financial Officer

**Janice H. Meinster**
Senior Vice President
Director of
Information Technology

**Donna L. Smith**
Senior Vice President
Director of Branch and
Deposit Operations

**Michelle R. Stambaugh**
Senior Vice President
Director of
Human Resources

## Officers

**Rudolph S. Brown, Jr.**
Vice President
Consumer Lending

**Dana Eckert**
Vice President
Multi-Area Manager

**Kristin C. Elswick**
Vice President
Deposit Operations

**Janet P. Kim**
Vice President
Director of Marketing/PR

**Christina Kopchinski**
Vice President
Consumer Credit Officer

**Michael Morse**
Vice President
Commercial Lending

**Lisa Singleton**
Vice President
Loan Operations

**Moses Williams, Jr.**
Vice President
Collections

**Jenny Bartimo**
Assistant Vice President
BSA/AML Officer

**William Brown**
Assistant Vice President
Remote Operations Alternate
Delivery

**Cia Palmer**
Assistant Vice President
Crownsville

**Pranav Pancholi**
Assistant Vice President
Odenton/Severn

**Stephen Pencarski**
Assistant Vice President
Information Technology

**Patricia T. Young**
Assistant Vice President
Assistant Controller

**Deborah J. Youngbar**
Assistant Vice President
New Cut

**Christina Bradford**
Bank Officer
Riviera Beach

**Suzanne Donnick**
Bank Officer
Assistant Branch
Administrator

**Deborah S. Rubbico**
Audit Liaison Officer

*(as of March 1, 2022)*

**2021**

Glen Burnie Bancorp
Annual Report

# Financials

Glen Burnie Bancorp and Subsidiary
Consolidated Financial Statements

December 31, 2021

**SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

# FORM 10-K

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2021 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from____ to ____

**Commission file number: 0-24047**

# GLEN BURNIE BANCORP

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| MARYLAND | 52-1782444 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 101 Crain Highway, S.E., Glen Burnie, Maryland | 21061 |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code | (410) 766-3300 |

Securities registered pursuant to Section 12(b) of the Act:

| Title of Class | Name of Each Exchange on Which Registered |
|---|---|
| None | None |

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
**Common Stock, $1.00 par value**
**Common Stock Purchase Rights**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer☐ Accelerated Filer☐ Non-Accelerated Filer☒ Smaller Reporting Company☒ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the registrant's outstanding common equity held by non-affiliates was $29,141,149, computed by reference to the closing sales price of such equity as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2021). For the purposes of this calculation, directors, executive officers, and the controlling investor are considered affiliates.

The number of shares of common stock outstanding as of March 21, 2022 was 2,856,257.

**Documents Incorporated By Reference**

Portions of the registrant's definitive proxy statement for the 2022 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

**GLEN BURNIE BANCORP**
2021 ANNUAL REPORT ON FORM 10-K

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## PART I

As used in this Annual Report, the term "the Company" refers to Glen Burnie Bancorp and, unless the context clearly requires otherwise, the terms "we," "us," and "our," refer to Glen Burnie Bancorp and its consolidated subsidiary.

### ITEM 1. BUSINESS

### GENERAL

Glen Burnie Bancorp (the "Company") is a bank holding company organized in 1990 under the laws of the State of Maryland. The Company owns all the outstanding shares of capital stock of The Bank of Glen Burnie (the "Bank"), a commercial bank organized in 1949 under the laws of the State of Maryland, serving northern Anne Arundel County and surrounding areas from its main office and branch in Glen Burnie, Maryland and branch offices in Odenton, Riviera Beach, Crownsville, Severn (two locations), Linthicum and Severna Park, Maryland. The Bank also maintains a remote Automated Teller Machine ("ATM") located in Pasadena, Maryland. The Bank maintains a website at www.thebankofglenburnie.com. It is the oldest independent commercial bank in Anne Arundel County. The Bank is engaged in the commercial and retail banking business as authorized by the banking statutes of the State of Maryland, including the acceptance of demand and time deposits, and the origination of loans to individuals, associations, partnerships and corporations.

The Bank's real estate financing consists of residential first and second mortgage loans, home equity lines of credit and commercial mortgage loans. Commercial lending consists of both secured and unsecured loans. The Bank also originates automobile loans through arrangements with local automobile dealers. The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). We attract deposit customers from the general public and use such funds, together with other borrowed funds, to make loans. Our results of operations are primarily determined by the difference between interest incomes earned on our interest-earning assets, primarily interest and fee income on loans and investment securities, and interest paid on our interest-bearing liabilities, including deposits and borrowings.

The Company's principal executive office is located at 101 Crain Highway, S.E., Glen Burnie, Maryland 21061. Its telephone number at such office is (410) 766-3300.

### AVAILABILITY OF INFORMATION

Information on the Company and its subsidiary Bank may be obtained from the Company's website www.thebankofglenburnie.com. Copies of the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto are available free of charge on the website as soon as practicable after they are filed with the Securities and Exchange Commission (SEC) through a link to the SEC's EDGAR reporting system. Simply select the "Investor Relations" menu item, then click on the "All SEC Filings" or "Insider Transactions" link.

### MARKET AREA

The Bank considers its principal market area for lending and deposit products to consist of Anne Arundel County, Maryland. Anne Arundel County includes the suburbs of the City of Baltimore and maintains a diverse set of economic drivers such as a large international airport, the defense industry, a large number of large private sector employers as well as telecommunications, retail, and distribution operations. The population of Anne Arundel County has been growing steadily since 2011 and projected to continue such growth through 2022. The median age for Anne Arundel County is 38.4 years. Management believes that the majority of the working population in its market area either commutes to Baltimore or is employed at businesses located at or around the nearby Baltimore Washington International Airport. Lending activities are broader, including the entire State of Maryland, and, to a limited extent, the surrounding states. All of our revenue is generated within the United States.

## COMPETITION

Our principal competitors for deposits are other financial institutions, including savings institutions, commercial banks, credit unions, and local banks and branches or affiliates of other larger banks located in our primary market area. Competition among these institutions is based primarily on interest rates and other terms offered, service charges imposed on deposit accounts, the quality of services rendered, and the convenience of banking facilities. Additional competition for depositors' funds comes from mutual funds, U.S. Government securities, insurance companies and private issuers of debt obligations and suppliers of other investment alternatives for depositors such as securities firms. Competition from credit unions has intensified in recent years as historical federal limits on membership have been relaxed. Because federal law subsidizes credit unions by giving them a general exemption from federal income taxes, credit unions have a significant cost advantage over banks and savings associations, which are fully subject to federal income taxes. Credit unions may use this advantage to offer rates that are highly competitive with those offered by banks and thrifts.

The Bank's interest rates, loan and deposit terms, and offered products and services are impacted, to a large extent, by competition. With respect to indirect lending, the Bank faces competition from other banks and the financing arms of automobile manufacturers. We compete in this area by offering competitive rates and responsive service to dealers. The Bank attempts to provide superior service within its community and to know, and facilitate services to its customers. It seeks commercial relationships with small to medium size businesses, which the Bank believes would welcome personal service and flexibility. The Bank believes its greatest competition comes from larger intra- and inter-state financial institutions.

## STRATEGY

We operate on the premise that the consolidation activities in the banking industry have created an opportunity for a well-capitalized community bank to satisfy banking needs that are no longer being adequately met in the local market. Large national and regional banks are catering to larger customers and provide an impersonal experience, while typical community banks, because of their limited capacity, are able to meet the needs of many small-to-medium-sized businesses. Specifically, as a result of bank mergers, many banks in the Baltimore metropolitan area became local branches of large regional and national banks. Although size gave the larger banks some advantages in competing for business from large corporations, including economies of scale and higher lending limits, we believe that these larger, national banks remain focused on a mass market approach which de-emphasizes personal contact and service. We also believe that the centralization of decision-making power at these large institutions has resulted in a lack of customer service. At many of these institutions, determinations are made at the out-of-state "home office" by individuals who lack personal contact with customers as well as an understanding of the customers' needs and scope of the relationship with the institution. We believe that this trend is ongoing, and continues to be particularly frustrating to owners of small and medium-sized businesses, business professionals and individual consumers who traditionally have been accustomed to dealing directly with a bank executive who had an understanding of their banking needs with the ability to deliver a prompt response.

We attempt to differentiate ourselves from the competition through personalized service, flexibility in meeting the needs of customers, prompt decision making and the availability of senior management to meet with customers and prospective customers.

## PRODUCTS AND SERVICES

### General

Our primary market focus is on making loans to and gathering deposits from small and medium-sized businesses and their owners, professionals and executives, real estate investors and individual consumers in our primary market area. We lend to customers throughout Maryland, with our core market being Northern Anne Arundel County and surrounding areas of Central Maryland. To a limited extent, we lend to customers in neighboring states. The Bank offers a full range of consumer and commercial loans. The Bank's lending activities include residential and commercial real estate loans, construction loans, land acquisition and development loans, commercial loans and consumer installment lending including indirect automobile lending. Substantially all of the Bank's loan customers are residents of Anne Arundel County and surrounding areas of Central Maryland. The Bank solicits loan applications for commercial loans from small to medium sized businesses located in its market area. The Company believes that this is a market in which a relatively small community bank, like the Bank, has a competitive advantage in personal service and flexibility. The Bank's consumer lending currently consists primarily of indirect automobile loans originated through arrangements with local dealers.

**Lending Activities**

*Credit Policies and Administration*

The Bank's lending activities are conducted pursuant to written policies approved by the Board of Directors ("Board") intended to ensure proper management of credit risk. Loans are subject to a well-defined credit process that includes credit evaluation of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances, as well as procedures for on-going identification and management of credit deterioration. Regular portfolio reviews are performed by the Bank's senior credit officer to identify potential underperforming loans and other credit facilities, to estimate loss exposure and to ascertain compliance with the Bank's policies. For significant problem loans, management review consists of evaluation of the financial strengths of the borrower and any guarantor, the related collateral, and the effects of economic conditions.

The Bank's loan approval policy provides for various levels of individual lending authority. The maximum aggregate lending authority granted by the Bank to any one Lending Officer is $750,000. A combination of approvals from certain officers may be used to lend up to an aggregate of $1,000,000. We have adopted a comprehensive lending policy, which includes stringent underwriting standards for all types of loans. Our lending staff follows pricing guidelines established periodically by our management team. The Bank maintains two committees, separate from the Board of Directors, which have authorization to approve extensions of credit. The two committees are called the Officer's Loan Committee ("OLC") and the Executive Committee ("EC"). The OLC is authorized to approve extensions of credit where the total aggregate amount of credit to the borrower or guarantor is less than or equal to $1,000,000. The OLC consists of the President/Chief Executive Officer ("President/CEO"), Chief Financial Officer ("CFO"), and Chief Lending Officer ("CLO") plus two additional loan officers. The EC approves extensions of credit where the aggregate amount of credit to an existing borrower is less than or equal to $3,000,000. The EC is comprised of the Chairman of the Board, or the President/CEO plus two (2) outside Directors. Extensions of credit greater than $3,000,000 must be approved by the Board of Directors. Under the leadership of our executive management team, we believe that we employ experienced lending officers, secure appropriate collateral and carefully monitor the financial conditions of our borrowers and the concentration of loans in our portfolio.

All loans by the Bank to our directors and executive officers and their affiliates require pre-approval by the Bank's Board of Directors to ensure, among other things, compliance with Section 23A and Section 23B of the Federal Reserve Act and Regulation O promulgated thereunder. It is the Bank's policy that all approved loans must be made on substantially the same terms as loans made to persons who are unrelated to the Bank.

In addition to the normal repayment risks, all loans in the portfolio are subject to the state of the economy and the related effects on the borrower and/or the real estate market. Generally, longer-term loans have periodic interest rate adjustments and/or call provisions. Senior management through the collections department monitors the loan portfolio closely to ensure that we minimize past due loans and that we swiftly deal with potential problem loans.

The Bank also retains an outside, independent firm to review the loan portfolio. This firm performs a detailed annual review. We use the results of the firm's report primarily to validate the risk ratings applied to loans in the portfolio and identify any systemic weaknesses in underwriting, documentation or management of the portfolio. Results of the annual review are presented to Executive Management, Audit Committee of the Board and the full Board of Directors and are available to and used by regulatory examiners when they review the Bank's asset quality.

The Bank maintains the normal checks and balances on the loan portfolio not only through the underwriting process but through the utilization of an internal credit administration group that both assists in the underwriting and serves as an additional reviewer of underwriting. The separately managed loan administration group also has oversight for documentation, compliance and timeliness of collection activities. Our internal audit department also reviews documentation, compliance and file management.

*Real Estate Lending*

The Bank offers long-term mortgage financing for residential and commercial real estate as well as shorter term construction and land development loans. Residential mortgage and residential construction loans are originated with fixed rates, while commercial mortgages may be originated on either a fixed or variable rate basis. Commercial construction loans may be originated on either a fixed or a variable rate basis. Substantially all of the Bank's real estate loans are secured by properties in Anne Arundel County, Maryland. Under the Bank's loan policies, the maximum permissible loan-to-value ratio for owner-occupied residential mortgages is 80% of the lesser of the purchase price or appraised value. For residential investment properties, the maximum loan-to-value ratio is 80%. The maximum permissible loan-to-value ratio for residential and residential construction loans is 80%. The maximum loan-to-value ratio for permanent commercial mortgages is 75%. The maximum loan-to-value ratio for land development loans is 70% and for unimproved land is 65%. The Bank also offers home equity loans secured by the borrower's primary residence, provided that the aggregate indebtedness on the property does not exceed 80% of its value for loan commitments greater than $100,000. Because mortgage lending decisions are based on conservative lending policies, the Company has no exposure to the credit issues affecting the sub-prime residential mortgage market.

Primary risks associated with residential real estate loans include fluctuating land and property values and rising interest rates with respect to fixed-rate, long-term loans. Residential construction lending exposes the Company to risks related to builder performance.

*Commercial Lending*

The Bank's commercial loan portfolio consists of demand, installment and time loans for commercial purposes. The Bank's business demand, installment and time lending includes various working capital loans, equipment, vehicles, lines of credit and letters of credit for commercial customers. Demand loans require the payment of interest until called, while installment loans require a monthly payment of principal and interest, and time loans require at maturity a single payment of principal and interest due monthly. Such loans may be made on a secured or an unsecured basis. All such loans are underwritten on the basis of the borrower's creditworthiness rather than the value of the collateral.

The primary risks associated with commercial loans, including commercial real estate loans, are the quality of the borrower's management and a number of economic and other factors which induce business failures and depreciate the value of business assets pledged to secure the loan, including competition, insufficient capital, product obsolescence, changes in the borrowers' cost, environmental hazards, weather, changes in laws and regulations and general changes in the marketplace.

*Installment Lending*

The Bank makes consumer and commercial installment loans for the purchase of automobiles, boats, other consumer durable goods, capital goods and equipment. Such loans provide for repayment in regular installments and are secured by the goods financed. Also included in installment loans are other types of credit repayable in installments.

*Indirect Automobile Lending*

The Bank commenced its indirect lending program in January 1998. The Bank finances new and used automobiles for terms of no more than 84 months. The Bank will lend a maximum of 90% of invoice on new vehicles. On used vehicles, the Bank will lend no more than 90% of the average retail value as defined by a major national publication approved by the Bank. The Bank requires all borrowers to obtain vendors single interest coverage protecting the Bank against loss in the case a borrower's automobile insurance lapses. The Bank originates indirect loans through a network of approximately 60 dealers which are primarily new car dealers located in Anne Arundel County and the surrounding counties. Participating dealers take loan applications from their customers and transmit them to the Bank for approval.

Indirect automobile loans, are affected primarily by a variety of factors that may lead to the borrower's unemployment, including deteriorating economic conditions in one or more segments of a local or broader economy. Because the Bank deals with borrowers through an intermediary on indirect automobile loans, this form of lending potentially carries greater risks of defects in the application process for which claims may be made against the Bank. Indirect automobile lending may also involve the Bank in consumer disputes under state "lemon" or other laws. The Bank seeks to control these risks by following strict underwriting and documentation guidelines. In addition, dealerships are contractually obligated to indemnify the Bank for such losses for a limited period of time.

*Consumer Lending*

We offer various types of secured and unsecured consumer loans. Generally, our consumer loans are made for personal, family or household purposes as a convenience to our customer base. As a general guideline, a consumer's total debt service should not exceed 40% of their gross income. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of his or her ability to meet existing obligations and payments on the proposed loan.

Consumer loans may present greater credit risk than residential real estate loans because many consumer loans are unsecured or are secured by rapidly depreciating assets. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation. Consumer loan collections also depend on the borrower's continuing financial stability. If a borrower suffers personal financial difficulties, the loan may not be repaid. Also, various federal and state laws, including bankruptcy and insolvency laws, may limit the amount we can recover on such loans.

*Personal Unsecured Lines*

The Bank offers overdraft protection lines of credit, tied to checking accounts, as a convenience to qualified customers.

*Loan Originations, Purchases, Sales, Participations and Servicing*

All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate standard underwriting guidelines. We originate both fixed and variable rate loans. Our loan origination activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. We occasionally sell participations in commercial loans to correspondent banks if the amount of the loan exceeds our internal limits. More rarely, we purchase loan participations from correspondent banks in the local market as well. Those loans are underwritten in-house with the same standards as loans directly originated.

*Loan Approval Procedures and Authority*

Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our board of directors. The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, and the adequacy of the value of the collateral that will secure the loan, if applicable. To assess a business borrower's ability to repay, we review and analyze, among other factors: current income, credit history including the Bank's prior experience with the borrower, cash flow, any secondary sources of repayment, other debt obligations in regards to the equity/net worth of the borrower and collateral available to the Bank to secure the loan.

We require appraisals or valuations of all real property securing one-to-four family residential and commercial real estate loans and home equity loans and lines of credit. All appraisers are state licensed or state certified appraisers, and a list of approved appraisers is maintained and updated on an annual basis.

**Deposit Activities**

Deposits are the major source of our funding. We offer a broad array of consumer and business deposit products that include demand, money market, and savings accounts, as well as time deposits. We offer a competitive array of commercial cash management products, which allow us to attract demand deposits. We believe that we pay competitive rates on our interest-bearing deposits. As a relationship-oriented organization, we generally seek to obtain deposit relationships with our loan clients.

**Other Banking Products**

We offer our customers treasury services products that include wire transfer and ACH services, debit card and automated teller machines and safe deposit boxes at all branches. In addition to traditional deposit services, we offer telephone banking services, mobile banking, internet banking services and internet bill paying services to our customers.

**EMPLOYEES**

At December 31, 2021, the Bank had 85 full-time equivalent employees. Glen Burnie Bancorp does not currently have any employees. None of our employees are represented by a union or covered under a collective bargaining agreement. Management considers its employee relations to be excellent.

**SUPERVISON AND REGULATION**

**General**

The Company and the Bank are extensively regulated under federal and state law. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on our business and our prospective business. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. We are unable to predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, economic controls, or new federal or state legislation may have in the future.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the "BHCA"). As such, the Company is registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and subject to Federal Reserve Board regulation, examination, supervision and reporting requirements. As a bank holding company, the Company is required to furnish to the Federal Reserve Board annual and quarterly reports of its operations at the end of each period and to furnish such additional information as the Federal Reserve Board may require pursuant to the BHCA. The Company is also subject to regular inspection by Federal Reserve Board examiners. As a publicly traded company whose common stock is registered under Section 12(g) of the Exchange Act, we are under the jurisdiction of the SEC and subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. We are listed on the NASDAQ Global Select Market and we are subject to the rules of NASDAQ for listed companies.

As a state-chartered bank with deposits insured by the FDIC but which is not a member of the Federal Reserve System (a "state non-member bank"), the Bank is subject to the supervision of the Maryland Commissioner of Financial Regulation ("Commissioner") and the FDIC. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance funds and depositors, and not for the protection of stockholders. The Commissioner and FDIC regularly examine the operations of the Bank, including but not limited to capital adequacy, assets, earnings, liquidity, sensitivity to market interest rates, reserves, loans, investments and management practices. In addition, the Bank is required to furnish quarterly Call Reports to the Commissioner and FDIC. The FDIC's enforcement authority includes the power to remove officers and directors and the authority to issue cease-and-desist orders to prevent a bank from engaging in unsafe or unsound practices or violating laws or regulations governing its business.

Some of the aspects of the lending and deposit business of the Bank that are subject to regulation by the Federal Reserve Board and the FDIC include disclosure requirements in connection with personal and mortgage loans and savings deposit accounts. In addition, the Bank is subject to numerous federal and state laws and regulations which set forth specific restrictions and procedural requirements with respect to the establishment of branches, investments, interest rates on loans, credit practices, the disclosure of customer information, the disclosure of credit terms and discrimination in credit transactions.

**Federal Home Loan Bank System**

The Bank is a member of the Federal Home Loan Bank ("FHLB"), which is one of 11 regional banks in the Federal Home Loan Bank System. The FHLB System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. The Bank is required to acquire and hold shares of capital stock of the FHLB as a condition of membership. As of December 31, 2021, the Bank was in compliance with this requirement.

**Consumer Financial Protection Laws**

The Bank is subject to a number of federal and state consumer financial protection laws and regulations that extensively govern its transactions with consumers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, and the Service Members Civil Relief Act. The Bank must also comply with applicable state usury laws and other laws prohibiting unfair and deceptive acts and practices. These laws, among other things, require disclosures of the cost of credit and the terms of deposit accounts, prohibit discrimination in credit transactions, regulate the use of credit report information, restrict the Bank's ability to raise interest rates and subject the Bank to substantial regulatory oversight. Violations of these laws may expose us to liability from potential lawsuits brought by affected customers. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce these consumer financial protection laws, in which case we may be subject to regulatory sanctions, civil money penalties, and customer rescission rights.

**Dodd-Frank Wall Street Reform and Consumer Protection Act**

The Dodd-Frank Act, which was signed into law in 2010, significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affected the regulation of community banks, thrifts, and small bank and thrift holding companies. Among other things, these provisions relaxed rules on interstate branching, allow financial institutions to pay interest on business checking accounts, and impose heightened capital requirements on bank and thrift holding companies. The Dodd-Frank Act also includes several corporate governance provisions that apply to all public companies, not just financial institutions. These include provisions mandating certain disclosures regarding executive compensation and provisions addressing proxy access by shareholders.

The Dodd-Frank Act also establishes the Consumer Financial Protection Bureau ("CFPB") as an independent entity within the Federal Reserve and transferred to the CFPB primary responsibility for administering substantially all of the consumer compliance protection laws formerly administered by other federal agencies. The Dodd-Frank Act also authorizes the CFPB to promulgate consumer protection regulations that will apply to all entities, including banks that offer consumer financial services or products. It also includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payment penalties.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, including some that may affect our business in substantial and unpredictable ways. We have incurred higher operating costs in complying with the Dodd-Frank Act, and we expect that these higher costs will continue for the foreseeable future. Our management continues to monitor the ongoing implementation of the Dodd-Frank Act and as new regulations are issued, will assess their effect on our business, financial condition, and results of operations.

**The Volcker Rule**

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and from investing and sponsoring hedge funds and private equity funds. The provision of the statute imposing these restrictions is commonly called the "Volcker Rule." The regulations implementing the Volcker Rule require institutions to conform their activities to the requirements of the Volcker Rule by July 21, 2015, and to conform their investments in certain "legacy covered funds" by July 21, 2017. These regulations exempt the Bank, as a bank with less than $10 billion in total consolidated assets that does not engage in any covered activities.

**Liquidity Requirements**

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are expected to incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2015, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to the Company or the Bank.

**Bank Holding Company Act (BHCA)**

Under the BHCA our activities are limited to business closely related to banking, managing, or controlling banks. We are also subject to capital requirements applied on a consolidated basis in a form substantially similar to those required of the Bank. The BHCA also requires a bank holding company to obtain approval from the Federal Reserve before (i) acquiring, or holding more than 5% voting interest in any bank or bank holding company, (ii) acquiring all or substantially all of the assets of another bank or bank holding company, or (iii) merging or consolidating with another bank holding company. The BHCA also restricts non-bank activities to those which, by statute or by Federal Reserve regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks.

**Gramm-Leach-Bliley Act of 1999 (GLBA)**

The GLBA removed barriers to affiliations among banks, insurance companies, the securities industry, and other financial service providers, and provides greater flexibility to these organizations in structuring such affiliations. The GLBA also expanded the types of financial activities a bank may conduct through a financial subsidiary and established a distinct type of bank holding company, known as a financial holding company, which may engage in an expanded list of activities that are "financial in nature." These activities include securities and insurance brokerage, securities underwriting, insurance underwriting, and merchant banking. A bank holding company may become a financial holding company only if all of its subsidiary financial institutions are well-capitalized and well-managed and have at least a satisfactory Community Reinvestment Act (CRA) rating. While we meet these standards, we do not currently intend to file notice with the Federal Reserve to become a financial holding company or to engage in expanded financial activities through a financial subsidiary of the Bank. The GLBA also includes privacy protections for nonpublic personal information held by financial institutions regarding their customers, and establishes a system of functional regulation that makes the Federal Reserve the "umbrella supervisor" for holding companies, and other federal and state agencies the supervisor of the holding company's subsidiary.

**Financial Privacy**

In accordance with the GLBA, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLBA affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We are also subject to various state laws that generally require us to notify any customer whose personal financial information may have been released to an unauthorized person as the result of a breach of our data security policies and procedures.

Under Maryland law, a bank holding company is prohibited from acquiring control of any bank if the bank holding company would control more than 30% of the total deposits of all depository institutions in the State of Maryland unless waived by the Commissioner. The Maryland Financial Institutions Code prohibits a bank holding company from acquiring more than 5% of any class of voting stock of a bank or bank holding company without the approval of the Commissioner except as otherwise expressly permitted by federal law or in certain other limited situations. The Maryland Financial Institutions Code additionally prohibits any person from acquiring voting stock in a bank or bank holding company without 60 days' prior notice to the Commissioner if such acquisition will give the person control of 25% or more of the voting stock of the bank or bank holding company or will affect the power to direct or to cause the direction of the policy or management of the bank or bank holding company. Any doubt whether the stock acquisition will affect the power to direct or cause the direction of policy or management shall be resolved in favor of reporting to the Commissioner. The Commissioner may deny approval of the acquisition if the Commissioner determines it to be anti-competitive or to threaten the safety or soundness of a banking institution. Voting stock acquired in violation of this statute may not be voted for five years.

**Capital Standards**

In July 2013, the Federal Reserve and other federal banking agencies approved final rules implementing the Basel Committee on Banking Supervision's capital guidelines for all U.S. banks and for bank holding companies with greater than $500 million in assets. The Federal bank regulatory agencies use capital adequacy guidelines in their examination and regulation of bank holding companies and banks. If capital falls below the minimum levels established by these guidelines, a bank holding company or bank must submit an acceptable plan for achieving compliance with the capital guidelines and, until its capital sufficiently improves, will be subject to denial of applications and appropriate supervisory enforcement actions. Under these final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. The final rules also require a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. A three-year phase in period for the capital buffer requirement began in 2016. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis. These capital requirements were effective January 1, 2015.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiary. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for credit and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

The final rules also increase the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. The final rules adopt the risk weights for residential mortgages under the existing general risk-based capital rules, which assign a risk weight of either 50% (for most first-lien exposures) or 100% for other residential mortgage exposures.

As of December 31, 2021, we were in compliance with all applicable regulatory capital requirements.

**Loans-to-One Borrower**

Under Maryland law, the maximum amount which the Bank is permitted to lend to any one borrower and their related interests may generally not exceed 10% of the Bank's unimpaired capital and surplus, which is defined to include the Bank's capital, surplus, retained earnings and 50% of its allowance for possible credit losses. By interpretive ruling of the Commissioner of Financial Regulation, Maryland banks have the option of lending up to the amount that would be permissible for a national bank which is generally 15% of unimpaired capital and surplus (defined to include a bank's total capital for regulatory capital purposes plus any credit loss allowances not included in regulatory capital). As of December 31, 2021, the Bank was in compliance with the loans-to-one-borrower limitations.

**Prompt Corrective Action Regulations**

The FDIC's prompt corrective action regulations establish five capital levels for financial institutions ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized"), and impose mandatory regulatory scrutiny and limitations on institutions that are less than adequately capitalized. At December 31, 2021, the Bank was categorized as "well capitalized," meaning that our total risk-based capital ratio exceeded 10.00%, our Tier 1 risk-based capital ratio exceeded 8.00%, our common equity Tier-1 risk-based capital ratio exceeded 6.50%, our leverage ratio exceeded 5.00%, and we are not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure.

**Dividends and Distributions**

The Federal Reserve Board has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the company's capital needs, asset quality, and overall financial condition.

Bank holding companies are required to give the Federal Reserve Board notice of any purchase or redemption of their outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would violate any law, regulation, Federal Reserve Board order, directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Bank holding companies whose capital ratios exceed the thresholds for "well capitalized" banks on a consolidated basis are exempt from the foregoing requirement if they were rated composite 1 or 2 in their most recent inspection and are not the subject of any unresolved supervisory issues.

**USA Patriot Act of 2001**

The USA Patriot Act of 2001 (the "Patriot Act") substantially broadened the scope of anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions. The regulations adopted by the Treasury under the Patriot Act require financial institutions to maintain appropriate controls to combat money laundering activities, perform due diligence of private banking and correspondent accounts, establish standards for verifying customer identity, and provide records related to suspected anti-money laundering activities upon request from federal authorities. A financial institution's failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches, and could also have other serious legal and reputational consequences for the institution. We have established policies, procedures and systems designed to comply with these regulations. However, it is reasonable to anticipate that the United States Congress may enact additional legislation in the future to combat terrorism including modifications to existing laws such as the Patriot Act to expand powers as deemed necessary. The enactment of the Patriot Act has increased the Bank's compliance costs, and the impact of any additional legislation enacted by Congress may have upon financial institutions is uncertain. However, such legislation would likely increase compliance costs and thereby potentially have an adverse effect upon the Company's results of operations.

**Community Reinvestment Act**

The Community Reinvestment Act of 1977 ("CRA") requires that, in connection with examinations of financial institutions, federal banking regulators must evaluate the record of the financial institution in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of the bank. Federal banking regulators are required to consider a financial institution's performance in these areas as they review applications filed by the institution to engage in mergers or acquisitions or to open a branch or facility. In addition, any bank rated in "substantial noncompliance" with the CRA regulations may be subject to enforcement proceedings. The Bank has a current rating of "satisfactory" for CRA compliance.

**Interstate Branching**

The Dodd-Frank Act expanded the authority of a state or national bank to open offices in other states. A state or national bank may now open a de novo branch in a state where the bank does not already operate a branch if the law of the state where the branch is to be located would permit a state bank chartered by that state to open the branch. This provision removed restrictions under prior law that restricted a state or national bank from expanding into another state unless the laws of the bank's home state and the laws of the other state both permitted out-of-state banks to open de novo branches.

**Dividend Limitations**

The ability of the Bank to pay dividends is limited by state and federal laws and regulations that require the Bank to obtain prior approval before paying a dividend that, together with other dividends it has paid during a calendar year, would exceed the sum of its net income year to date combined with its retained net income for the previous two years. Pursuant to the Maryland Financial Institutions Code, Maryland banks may only pay dividends from undivided profits or, with the prior approval of the Commissioner, their surplus in excess of 100% of required capital stock. The Maryland Financial Institutions Code further restricts the payment of dividends by prohibiting a Maryland bank from declaring a dividend on its shares of common stock until its surplus fund equals the amount of required capital stock or, if the surplus fund does not equal the amount of capital stock, in an amount in excess of 90% of net earnings. In addition, the Bank is prohibited by federal statute from paying dividends or making any other capital distribution that would cause the Bank to fail to meet its regulatory capital requirements. Further, the FDIC also has authority to prohibit the payment of dividends by a state non-member bank when it determines such payment to be an unsafe and unsound banking practice.

**Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 ("SOX") includes provisions intended to enhance corporate responsibility and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws, and which increase penalties for accounting and auditing improprieties at publicly traded companies. The SOX generally applies to all companies that file or are required to file periodic reports with the SEC under the Exchange Act.

Among other things, the SOX creates the Public Company Accounting Oversight Board ("PCAOB") as an independent body subject to SEC supervision with responsibility for setting auditing, quality control, and ethical standards for auditors of public companies. The SOX also requires public companies to make faster and more-extensive financial disclosures, requires the chief executive officer and the chief financial officer of public companies to provide signed certifications as to the accuracy and completeness of financial information filed with the SEC, and provides enhanced criminal and civil penalties for violations of the federal securities laws.

The SOX also addresses functions and responsibilities of audit committees of public companies. The statute, by mandating certain stock exchange listing rules, makes the audit committee directly responsible for the appointment, compensation, and oversight of the work of the company's outside auditor, and requires the auditor to report directly to the audit committee. The SOX authorizes each audit committee to engage independent counsel and other advisors, and requires a public company to provide the appropriate funding, as determined by its audit committee, to pay the company's auditors and any advisors that its audit committee retains. The SOX also requires public companies to prepare an internal control report and assessment by management, along with an attestation to this report prepared by the company's independent registered public accounting firm, in their annual reports to stockholders.

**FDIC Deposit Insurance Assessment**

The Dodd-Frank Act which was signed into law on July 21, 2010, changed how the FDIC calculates deposit insurance premiums payable by insured depository institutions. The Dodd-Frank Act directs the FDIC to calculate the deposit insurance assessments payable by each insured depository institution based generally upon the institution's average total consolidated assets minus its average tangible equity during the assessment period. Previously, an institution's assessments were based on the amount of its insured deposits. The minimum deposit insurance fund rate increased from 1.15% to 1.35% on September 30, 2020, and the cost of the increase is borne by depository institutions with assets of $10 billion or more. The Dodd-Frank Act also provides the FDIC with discretion to determine whether to pay rebates to insured depository institutions when its deposit insurance reserves exceed certain thresholds.

**Transactions with Affiliates**

A state non-member bank or its subsidiary may not engage in "covered transactions" with any one affiliate in an amount greater than 10% of such bank's capital stock and surplus, and for all such transactions with all affiliates a state non-member bank is limited to an amount equal to 20% of capital stock and surplus. All such transactions must also be on terms substantially the same, or at least as favorable, to the bank or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. An affiliate of a state non-member bank is any company or entity which controls or is under common control with the state non-member bank and, for purposes of the aggregate limit on transactions with affiliates, any subsidiary that would be deemed a financial subsidiary of a national bank. In a holding company context, the parent holding company of a state non-member bank (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the state non-member bank. The BHCA further prohibits a depository institution from extending credit to or offering any other services, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution, subject to certain limited exceptions.

**Loans to Directors, Executive Officers and Principal Stockholders**

Loans to directors, executive officers and principal stockholders of a state non-member bank must be made on substantially the same terms as those prevailing for comparable transactions with persons who are not executive officers, directors, principal stockholders or employees of the Bank unless the loan is made pursuant to a compensation or benefit plan that is widely available to employees and does not favor insiders. Loans to any executive officer, director and principal stockholder together with all other outstanding loans to such person and affiliated interests generally may not exceed 15% of the bank's unimpaired capital and surplus and all loans to such persons may not exceed the institution's unimpaired capital and unimpaired surplus. Loans to directors, executive officers and principal stockholders, and their respective affiliates, in excess of the greater of $100,000 or 5% of capital and surplus (up to $500,000) must be approved in advance by a majority of the Board of Directors of the Bank with any "interested" director not participating in the voting. State non-member banks are prohibited from paying the overdrafts of any of their executive officers or directors. In addition, loans to executive officers may not be made on terms more favorable than those afforded other borrowers and are restricted as to type, amount and terms of credit.

## ITEM 2. PROPERTIES

The following table sets forth certain information with respect to the Bank's offices (dollars in thousands):

| | Year Opened | Owned/ Leased | Book Value | Approximate Square Footage | Deposits |
|---|---|---|---|---|---|
| **Main Office:** | | | | | |
| 101 Crain Highway, S.E. | 1953 | Owned | $ 967 | 10,000 | $ 98,515 |
| Glen Burnie, MD 21061 | | | | | |
| | | | | | |
| **Branches:** | | | | | |
| Odenton | 1969 | Owned | 70 | 6,000 | 38,221 |
| 1405 Annapolis Road | | | | | |
| Odenton, MD 21113 | | | | | |
| | | | | | |
| Riviera Beach | 1973 | Owned | 104 | 2,500 | 41,347 |
| 8707 Ft. Smallwood Road | | | | | |
| Pasadena, MD 21122 | | | | | |
| | | | | | |
| Crownsville | 1979 | Owned | 106 | 3,000 | 81,749 |
| 1221 Generals Highway | | | | | |
| Crownsville, MD 21032 | | | | | |
| | | | | | |
| Severn | 1984 | Owned | 45 | 2,500 | 36,671 |
| 811 Reece Road | | | | | |
| Severn, MD 21144 | | | | | |
| | | | | | |
| New Cut Road | 1995 | Owned | 794 | 2,600 | 50,116 |
| 740 Stevenson Road | | | | | |
| Severn, MD 21144 | | | | | |
| | | | | | |
| Linthicum | 2005 | Leased | 30 | 2,500 | 24,595 |
| Burwood Village Shopping Center | | | | | |
| Glen Burnie, MD 21060 | | | | | |
| | | | | | |
| Severna Park | 2002 | Leased | 25 | 2,184 | 12,033 |
| 534 Ritchie Highway | | | | | |
| Severna Park, MD 21146 | | | | | |
| | | | | | |
| **Operations Centers:** | | | | | |
| 106 Padfield Blvd. | 1991 | Owned | — | 16,200 | N/A |
| Glen Burnie, MD 21061 | | | | | |
| | | | | | |
| 103 Crain Highway, S.E. | 2000 | Owned | — | 3,727 | N/A |
| Glen Burnie, MD 21061 | | | | | |

## ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank from time to time are involved in legal proceedings related to collection suits and other actions that arise in the ordinary course of business against their borrowers and are defendants in legal actions arising from normal business activities. The Company's management, after consultation with legal counsel, believe there are no pending or threatened legal proceedings that, upon resolution, are expected to have a material adverse effect upon the Company's or the Bank's financial condition or results of operations based on all known information at this time.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company's executive officers as of December 31, 2021.

| NAME | AGE | POSITIONS |
|---|---|---|
| John D. Long | 66 | President and Chief Executive Officer |
| Andrew J. Hines | 60 | Executive Vice President and Chief Lending Officer |
| Jeffrey D. Harris | 66 | Senior Vice President and Treasurer and Chief Financial Officer |
| Michelle R. Stambaugh | 62 | Senior Vice President and HR Director |
| Donna L. Smith | 59 | Senior Vice President and Director of Branch and Deposit Operations |

JOHN D. LONG was appointed President and Chief Executive Officer of the Company and the Bank effective April 1, 2016. From February 8, 2016 to that date, Mr. Long was Executive Vice President. From October 2014 until February 2016, Mr. Long was an independent consultant advising commercial banks.

ANDREW J. HINES was appointed Chief Lending Officer of the Bank effective March 1, 2014. He was appointed Senior Lending Officer and Senior Vice President effective January 2, 2014. Effective January 12, 2017, he was appointed Executive Vice President.

JEFFREY D. HARRIS was appointed Senior Vice President, Treasurer of the Company and Senior Vice President, Chief Financial Officer, and CRA and Compliance Officer of the Bank effective March 30, 2017. Prior to that, he was the SVP – Controller at Bay Bank.

MICHELLE R. STAMBAUGH was appointed Senior Vice President effective February 2, 2011. Effective November 28, 2016, she assumed the role of Corporate Secretary of the Company and Bank. Prior to that, she was Vice President and Director of Human Resources for 18 years.

DONNA L. SMITH was appointed Senior Vice President – Director of Retail Banking / Information/Physical Security Officer on October 26, 2015. In 2017 she was also appointed to Director of Branch and Deposit Operations. Prior to that, she was the SVP – Enterprise Risk Manager at Bay Bank.

## PART II

## ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our authorized common stock consists of 15,000,000 shares, of which 2,853,880 shares are issued and outstanding as of December 31, 2021. The Common Stock is traded on the Nasdaq Capital Market under the symbol “GLBZ”. As of February 17, 2022, there were 330 record holders of the Common Stock. The closing price for the Common Stock on that date was $11.60.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2021 and 2020 as reported by Nasdaq. The quotations represent prices between dealers and do not reflect the retailer markups, markdowns or commissions, and may not represent actual transactions. Also shown are dividends declared per share for these periods.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| **Quarter Ended** | **High** | **Low** | **Dividends** | **High** | **Low** | **Dividends** |
| March 31, | $ 11.55 | $ 11.18 | $ 0.10 | $ 7.98 | $ 7.98 | $ 0.10 |
| June 30, | 13.01 | 12.67 | 0.10 | 8.49 | 8.49 | 0.10 |
| September 30, | 12.12 | 12.12 | 0.10 | 10.30 | 10.27 | 0.10 |
| December 31, | 14.14 | 14.00 | 0.10 | 11.00 | 10.76 | 0.10 |

A regular dividend of $0.10 was declared for stockholders of record on January 24, 2022, payable on February 7, 2022.

The payment of dividends by the Company depends upon the ability of the Bank to declare and pay dividends to the Company because the principal source of the Company's revenue will be dividends paid by the Bank. The Company recognizes the importance of dividends to its shareholders and intends to evaluate a variety of factors, on a quarterly basis, in determining whether dividend payments are prudent as well as the amount of the dividend. However, dividends remain subject to declaration by the Board of Directors in its sole discretion and there can be no assurance that the Company will be legally or financially able to make such payments. Payment of dividends may be limited by federal and state regulations which impose general restrictions on a bank’s and bank holding company’s right to pay dividends (or to make loans or advances to affiliates which could be used to pay dividends). Generally, dividend payments are prohibited unless a bank or bank holding company has sufficient net (or retained) earnings and capital as determined by its regulators. See “Item 1. Business - Supervision and Regulation - Regulation of the Company - Dividends and Distributions” and “Item 1. Business – Supervision and Regulation - Regulation of the Bank - Dividend Limitations.” The Company does not believe that those restrictions will materially limit its ability to pay dividends.

## ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include projections, predictions, expectations or statements as to beliefs or future events or results, or refer to other matters that are not purely statements of historical facts. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking statements contained in this Annual Report are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by words like “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “intend”, “believe”, “estimate”, “predict”, “potential”, or “continue” or the negative of those words and other comparable words. You should be aware that those statements reflect only our predictions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. Further, factors or events that could cause our actual results to differ from our forward-looking statements may emerge from time to time, and it is not possible for us to predict all of them. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Factors that might cause such differences include, but are not limited to:

- changes in our plans and strategies and the results thereof;
- the impact of acquisitions and other strategic transactions;
- unexpected changes in the housing market, business markets, and/or general economic conditions in our market area;
- unexpected changes in market interest rates or monetary policy;
- the impact of new laws, regulations and governmental policies and guidelines that might require changes to our business model;
- changes in laws, regulations and governmental policies and guidelines that might impact our ability to collect on outstanding loans or otherwise negatively impact our business;
- higher than anticipated credit losses or the insufficiency of the allowance for credit losses;
- our potential exposure to various types of market risks, such as interest rate risk and credit risk;
- our ability to recover the fair values of available for sale securities;
- our obligation to fund commitments to extend credit and unused lines of credit;
- changes in consumer confidence, spending and savings habits relative to the services we provide;
- continued relationships with major customers;
- competition from other financial institutions in originating loans, attracting deposits, and providing various financial services that may affect our profitability;
- the ability to continue to grow our business internally and through acquisition and successful integration of bank entities while controlling our costs;
- changes in competitive, governmental, regulatory, accounting, technological and other factors that may affect us specifically or the banking industry generally, including as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”);
- changes in our sources and availability of liquidity;
- the impact of pending and future legal proceedings; and
- losses that we may realize from off-balance sheet arrangements.

You should also carefully consider additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

**OVERVIEW**

This section is intended to help investors understand the financial performance of the Company through a discussion of the factors affecting our financial condition at December 31, 2021 and 2020 and our results of operations for the years ended December 31, 2021 and 2020. This section should be read in conjunction with the consolidated financial statements and notes thereto that appear elsewhere in this Annual Report on Form 10-K.

Net interest income was $12.4 million for the year ended December 31, 2021 and $12.2 million for the year ended December 31, 2020. Total interest income decreased from $13.7 million in 2020 to $13.5 million in 2021, a 1.11% decrease. Interest expense for 2021 totaled $1.1 million, a 29.11% decrease from $1.5 million in 2020. Net income at December 31, 2021 was $2.5 and $1.7 million at December 31, 2020.

**COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

**General.** For the year ended December 31, 2021, the Company reported consolidated net income of $2.5 million ($0.88 per basic and diluted earnings per share) compared to consolidated net income of $1.7 million ($0.59 per basic and diluted earnings per share) for the year ended December 31, 2020. The $848,000 increase in the 2021 consolidated net income as compared to 2020 was primarily due to a $441,000 decrease in interest expenses, a $286,000 increase in the release of credit loss provision for loans and a $744,000 decrease in noninterest expenses, offset by decreases of $152,000 in net interest income and $385,000 in noninterest income. The increase in the release of credit loss provision for loans was due to decreases in qualitative factors driven by macro-economic conditions, a decrease in the size of the loan portfolio, and the overall credit-quality of the loan portfolio. Annualized return on average assets was 0.58% at December 31, 2021 compared to 0.42% at December 31, 2020. Annualized return on average equity was 6.99% and 4.49% at December 31, 2021 and 2020, respectively. The dividend payout ratio was 45% at December 31, 2021 and 68% at December 31, 2020. The equity to asset ratio was 8.08% and 8.84% at December 31, 2021 and 2020, respectively.

**Net Interest Income.** The primary component of the Company's net income is its net interest income, which is the difference between income earned on assets and interest paid on the deposits and borrowings used to fund income producing assets. Net interest income is determined by the spread between the yields earned on the Company's interest-earning assets and the rates paid on interest-bearing liabilities as well as the relative amounts of such assets and liabilities.

The Company's net interest margin is determined by dividing net interest income by the Company's average interest-earning assets.

Net interest income is affected by the mix of loans in the Bank's loan portfolio. Currently a majority of the Bank's loans are residential and commercial mortgage loans secured by real estate, and indirect automobile loans secured by automobiles.

Consolidated net interest income for the year ended December 31, 2021 was $12.4 million and $12.2 million for the year ended December 31, 2020. Total interest income decreased from $13.7 million for 2020 to $13.5 million for 2021, a $152,000, or 1.11% decrease, primarily due to a $1.2 million decrease in interest and fees on loans, offset by a $1.1 million increase in interest and dividends on securities.

Total interest expense decreased from $1.5 million in 2020 to $1.1 million in 2021, a $441,000 or 29.11% decrease, primarily due to a $434,000 decrease in interest on deposits and an $8,000 decrease in interest on long-term borrowings. Net interest margin for the year ended December 31, 2021 was 3.00% compared to 3.18% for the year ended December 31, 2020.

The following table allocates changes in income and expense attributable to the Company's interest-earning assets and interest-bearing liabilities for the periods indicated between changes due to changes in rate and changes in volume. Changes due to rate/volume are allocated to changes due to volume.

| | Year Ended December 31, 2021 VS. 2020 Change Due To: | | |
|---|---|---|---|
| **(dollars in thousands)** | **Increase/ Decrease** | **Rate** | **Volume** |
| **ASSETS:** | | | |
| Interest-earning assets: | | | |
| Interest-bearing deposits w/ banks & fed funds | $ 16 | $ (8) | $ 24 |
| Investment securities: | | | |
| Investment securities available for sale | 1,078 | 15 | 1,063 |
| Restricted equity securities | (11) | (2) | (9) |
| Total investment securities | 1,067 | 13 | 1,054 |
| Loans, net of unearned income | | | |
| Loans Secured by Real Estate | | | |
| Construction and land | (73) | (65) | (8) |
| Farmland | (1) | (1) | — |
| Singlefamily residential | (520) | (188) | (332) |
| Multifamily | (24) | (3) | (21) |
| Commercial | 339 | 656 | (317) |
| Total loans secured by real estate | (279) | 399 | (678) |
| Commercial and Industrial | | | |
| Commercial and industrial | (100) | (38) | (62) |
| SBA guaranty | 94 | 123 | (29) |
| Comm SBA PPP | (47) | (18) | (29) |
| Total commercial and industrial loans | (53) | 67 | (120) |
| Consumer Loans | | | |
| Consumer | (13) | (3) | (10) |
| Automobile | (890) | (42) | (848) |
| Total consumer loans | (903) | (45) | (858) |
| Total gross loans(1) | (1,235) | 421 | (1,656) |
| Total interest-earning assets | $ (152) | $ 426 | (578) |
| **LIABILITIES:** | | | |
| Interest-bearing deposits: | | | |
| Interest-bearing checking and savings | $ (7) | $ (15) | $ 8 |
| Money market | 2 | 1 | 1 |
| Other time deposits | (429) | (353) | (76) |
| Total interest-bearing deposits | (434) | (367) | (67) |
| Borrowed funds | (7) | (38) | 31 |
| Total interest-bearing liabilities | $ (441) | $ (405) | $ (36) |

The following table provides information for the designated periods with respect to the average balances, income and expense and annualized yields and costs associated with various categories of interest-earning assets and interest-bearing liabilities.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| | Average Balance | Interest | Yield/ Cost | Average Balance | Interest | Yield/ Cost |
| | (dollars In thousands) | | | | | |
| **ASSETS:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits w/ banks & fed funds | $ 34,921 | $ 79 | 0.12 % | $ 16,159 | $ 63 | 0.39 % |
| Investment securities: | | | | | | |
| Investment securities available for sale | 145,496 | 2,657 | 1.85 | 88,088 | 1,579 | 1.79 |
| Restricted equity securities | 1,092 | 43 | 3.90 | 1,350 | 54 | 3.98 |
| Total investment securities | 146,588 | 2,700 | 1.87 | 89,438 | 1,633 | 1.83 |
| Loans Secured by Real Estate | | | | | | |
| Construction and land | 3,640 | 120 | 3.30 | 3,871 | 193 | 4.97 |
| Farmland | 347 | 17 | 5.04 | 355 | 18 | 5.04 |
| Singlefamily residential | 79,768 | 3,400 | 4.26 | 87,566 | 3,920 | 4.48 |
| Multifamily | 5,322 | 311 | 5.84 | 5,684 | 335 | 5.88 |
| Commercial | 55,838 | 3,481 | 6.23 | 60,920 | 3,142 | 5.14 |
| Total loans secured by real estate | 144,915 | 7,329 | 5.06 | 158,396 | 7,608 | 4.79 |
| Commercial and Industrial | | | | | | |
| Commercial and industrial | 9,518 | 308 | 3.23 | 11,424 | 408 | 3.56 |
| SBA guaranty | 7,631 | 747 | 9.79 | 7,926 | 653 | 8.22 |
| Comm SBA PPP | 5,674 | 60 | 1.06 | 8,368 | 107 | 1.28 |
| Total commercial and industrial loans | 22,823 | 1,115 | 4.88 | 27,718 | 1,168 | 4.20 |
| Consumer Loans | | | | | | |
| Consumer | 2,560 | 30 | 1.18 | 3,426 | 43 | 1.26 |
| Automobile | 63,658 | 2,264 | 3.56 | 87,534 | 3,154 | 3.60 |
| Total consumer loans | 66,218 | 2,294 | 3.46 | 90,960 | 3,197 | 3.51 |
| Total gross loans(1) | 233,956 | 10,738 | 4.59 | 277,074 | 11,973 | 4.32 |
| Total interest-earning assets | 415,465 | 13,517 | 3.25 | 382,671 | 13,669 | 3.57 |
| Cash and due from banks | 2,181 | | | 2,258 | | |
| Allowance for credit losses | (2,838) | | | (2,069) | | |
| Other assets | 16,361 | | | 17,602 | | |
| Total assets | $ 431,169 | | | $ 400,462 | | |
| **LIABILITIES AND STOCKHOLDER'S EQUITY:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Interest-bearing checking and savings | $ 137,861 | 62 | 0.05 % | $ 120,356 | 69 | 0.06 % |
| Money market | 21,557 | 11 | 0.05 | 18,622 | 9 | 0.05 |
| Certificates of deposit | 65,358 | 536 | 0.82 | 74,667 | 965 | 1.29 |
| Total interest-bearing deposits | 224,776 | 609 | 0.27 | 213,645 | 1,043 | 0.49 |
| Borrowed funds: | | | | | | |
| Federal funds purchased | 308 | 1 | 0.44 | 1 | — | — |
| PPPLF Term Funding | 1 | — | — | 888 | 3 | 0.32 |
| FHLB advances | 20,000 | 464 | 2.32 | 23,428 | 469 | 2.01 |
| Total interest-bearing liabilities | 245,085 | 1,074 | 0.44 | 237,962 | 1,515 | 0.64 |
| Non-interest-bearing deposits | 147,182 | | | 122,749 | | |
| Other liabilities | 2,892 | | | 2,684 | | |
| Stockholder's equity | 36,010 | | | 37,067 | | |
| Total liabilities and equity | $ 431,169 | | | $ 400,462 | | |
| Net interest income | | $ 12,443 | | | $ 12,154 | |
| Net interest spread | | | 2.81 % | | | 2.93 % |
| Net interest margin | | | 3.00 % | | | 3.18 % |

1 Nonaccrual loans included in average balance.

**Allowance for Credit Losses.** Effective January 1, 2021, the Company applied ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"), such that the allowance calculation is based on the CECL methodology. Prior to January 1, 2021, the calculation was based on incurred loss methodology. The Company maintains an allowance for credit losses ("ACL") for the expected credit losses of the loan portfolio as well as unfunded loan commitments. The amount of ACL is based on ongoing, quarterly assessments by management. The CECL methodology requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures) and replaces the incurred loss methodology's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred.

The ACL consists of the allowance for credit losses - loans and the reserve for unfunded commitments. The estimate of expected credit losses under the CECL methodology is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. We then consider whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period that historical experience was based for each loan type. Finally, we consider forecasts about future economic conditions or changes in collateral values that are reasonable and supportable.

Portfolio segment is defined as the level at which the Company develops and documents a systematic methodology to determine its ACL. The Company has designated three loan portfolio segments: loans secured by real estate, commercial and industrial loans, and consumer loans. These loan portfolio segments are further disaggregated into classes, which represent loans of similar type, risk characteristics, and methods for monitoring and assessing credit risk. The loans secured by real estate portfolio segment is disaggregated into five classes: construction and land, farmland, family residential, multi-family, and commercial. The commercial and industrial loan portfolio segment is disaggregated into two classes: commercial and industrial, and SBA guaranty. The risk of loss for the commercial and industrial loan portfolio segment is generally most indicated by the credit risk rating assigned to each borrower. Commercial and industrial loan risk ratings are determined by experienced senior credit officers based on specific facts and circumstances and are subject to periodic review by an independent internal team of credit specialists. The consumer loan portfolio segment is disaggregated into two classes: consumer and automobile. The risk of loss for the consumer loan portfolio segment is generally most indicated by delinquency status and general economic factors. Each of the three loan portfolio segments may also be further segmented based on risk characteristics.

For most of our loan portfolio classes, the historical loss experience is determined using the Average Charge-Off Method. This method pools loans into groups ("cohorts") sharing similar risk characteristics and tracks each cohort's net charge-offs over the lives of the loans. The Average Charge-Off Method uses historical values by period (20-year look-back) to calculate losses and then applies the historical average to future balances over the life of the account. The historical loss rates for each cohort are then averaged to calculate an overall historical loss rate which is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance for credit losses for the respective loan portfolio class. For certain loan portfolio classes, the Company determined there was not sufficient historical loss information to calculate a meaningful historical loss rate using the average charge-off methodology. For any such loan portfolio class, peer group history contributes to the Company's weighted average loss history. The peer group data is included in the weighted average loss history that is developed for each loan pool.

The Company also considers qualitative adjustments to the historical loss rate for each loan portfolio class. The qualitative adjustments for each loan class consider the conditions over the 20-year look-back period from which historical loss experience was based and are split into two components: 1) asset or class specific risk characteristics or current conditions at the reporting date related to portfolio credit quality, remaining payments, volume and nature, credit culture and management, business environment or other management factors; and 2) reasonable and supportable forecast of future economic conditions and collateral values.

The Company performs a quarterly asset quality review which includes a review of forecasted gross charge-offs and recoveries, nonperforming assets, criticized loans, risk rating migration, delinquencies, etc. The asset quality review is performed by management and the results are used to consider a qualitative overlay to the quantitative baseline.

When management deems it to be appropriate, the Company establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans included in each respective loan pool. These individually evaluated loans are removed from their respective pools and typically represent collateral dependent loans but may also include other non-performing loans or troubled debt restructurings ("TDRs").

During the year ended December 31, 2021, the Company recognized a release of credit loss provision - loans of $1.0 million, compared to a release of $0.7 million for the year ended December 31, 2020. The decrease was primarily driven by decreases in qualitative factors driven by macro-economic conditions, a decrease in the size of the loan portfolio, and the overall credit-quality of the loan portfolio. No provision for credit losses - loans on the Commercial SBA PPP loans was recognized as the SBA guarantees 100% of loans funded under the program. The allowance for credit losses - loans was $2.5 million, or 1.17% of total loans at December 31, 2021, compared to $1.5 million, or 0.58% of total loans at December 31, 2020. At December 31, 2021, the allowance for credit losses equaled 700.3% of nonaccrual and past due loans compared to 32.6% at December 31, 2020. During the year ended December 31, 2021, the Company recorded net recoveries of $0.4 million compared to $0.1 million during the year ended December 31, 2020.

**Noninterest Income.** Noninterest income includes service charges on deposit accounts, other fees and commissions, net gains/losses on investment securities sold, and income on Bank Owned Life Insurance ("BOLI"). Noninterest income decreased from $1.0 million in 2020 to $0.6 million in 2021, a $0.4 million, or 38.04% decrease. The decrease was primarily due to a $0.6 million loss on investment securities that were sold in 2021, offset by higher ATM interchange fees related to the resumption of the Renaissance Festival, which was cancelled due to COVID-19 in 2020.

**Noninterest Expenses.** Noninterest expenses decreased from $11.7 million in 2020 to $11.0 million in 2021, a $0.7 million or 6.36% decrease. Salary and employee benefits decreased by $0.2 million, or 3.54%, to $6.5 million at December 31, 2021, compared to $6.7 million at December 31, 2020 due to decreases in the number of employees and the cost of benefits. Legal, accounting and other professional fees decreased from $0.9 million in 2020 to $0.7 million in 2021, a $0.2 million, or 25.5%, decrease. Loan collection costs decreased to $12,000 at December 31, 2021 compared to $126,000 at December 31, 2020 a $114,000, or 90.48% decrease. Other expenses decreased from $1.2 million at December 31, 2020 to $1.1 million at December 31, 2021, a decrease of $0.1 million, or 9.25%.

**Income Taxes.** During the year ended December 31, 2021, the Company recorded an income tax expense of $0.58 million, compared to an income tax expense of $0.49 million for the year ended December 31, 2020, a $0.1 million or 17.52% increase. This increase was primarily due to $0.1 million higher income before taxes in 2021.

## FINANCIAL CONDITION

Total assets increased by $22.6 million, or 5.38% to $442.1 million at December 31, 2021, compared to $419.5 million at December 31, 2020. The increase was primarily a result of increases in cash and investments, and investment securities available for sale due to COVID-19 surge-deposit growth and loan balance declines.

Cash and cash equivalents at December 31, 2021 were $62.2 million compared to $37.1 million at December 31, 2020. At year end 2021, investment securities had increased 36.7% to $155.9 million compared to year end 2020. Total loans at December 31, 2021 were $207.9 million compared to $252.3 million at December 31, 2020. At December 31, 2021, total deposits were $383.2 million compared to $349.6 million at the end of 2020, a 9.62% increase during the period. Total borrowings were $20.0 million at December 31, 2021 compared to $29.9 million at December 31, 2020.

Net loans on December 31, 2021 included $1.0 million of loans funded under the SBA PPP. These PPP loans directly benefitted the businesses and employees in our local communities. The Company funded 184 PPP loans totaling approximately $24.1 million from the second quarter of 2020 through the second quarter of 2021. The SBA began forgiving PPP loans in October 2020.

**Cash**

Cash and cash equivalents increased by $25.1 million primarily due to a decrease in loans net of deferred fees and costs in the amount of $43.4 million and increases in deposits in the amount of $33.6 million, offset by an increase in the investment portfolio in the amount of $41.9 million that drove the increase in 2021.

**Investment Securities**

The Company's investment policy authorizes management to invest in traditional securities instruments in order to provide ongoing liquidity, income and a ready source of collateral that can be pledged in order to access other sources of funds. The investment portfolio consists solely of securities available for sale. Securities available for sale are those securities that we intend to hold for an indefinite period of time but not necessarily until maturity. These securities are carried at fair value and may be sold as part of an asset/liability management strategy, liquidity management, interest rate risk management, regulatory capital management or other similar factors.

The investment portfolio consists primarily of U.S. Treasury securities, U.S. Government agency securities, residential mortgage-backed securities, corporate and state and municipal obligations. The income from state and municipal obligations may be taxable or tax-exempt from federal and state income tax. State and municipal obligations from the State of Maryland are exempt from state income taxes. We use the investment portfolio as a source of both liquidity and earnings. Management continuously evaluates investment options that will produce income without assuming significant credit or interest rate risk and looks for opportunities to use liquidity from maturing investments to reduce our use of high cost time deposits and borrowed funds.

During 2021, the Company's investment securities portfolio totaled $155.9 million, a $41.9 million, or 36.72% increase from $114.0 million at December 31, 2020. This increase was primarily driven by $102.9 million of purchases of available for sale securities, offset by $58.0 million of paydowns and redemptions of investment securities.

In anticipation of the Federal Open Market Committee's plan to begin tapering its bond purchase program, the Company began restructuring its bond portfolio by lowering the overall duration of the portfolio. On October 1, 2021 and October 28, 2021, the Company entered into trade agreements to sell government agency securities totaling approximately $28,700,000 and $4,700,000, respectively. These trades resulted in pre-tax losses of approximately $345,300 and $246,000, respectively, which are reflected in noninterest income in the 2021 income statement.

The composition of investment securities, at carrying value, at December 31, 2021 and 2020 are presented in the following table:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Amount** | **%** | **Amount** | **%** |
| *Available for sale securities:* | | | | |
| U.S. Government agency | 31,351 | 20.1 % | 33,045 | 29.0 % |
| Residential mortgage-backed securities | 77,877 | 49.9 % | 51,591 | 45.2 % |
| State and municipal | 45,225 | 29.0 % | 29,413 | 25.8 % |
| Corporate securities | 1,474 | 1.0 % | — | — % |
| Total debt securities | $ 155,927 | 100.0 % | $ 114,049 | 100.0 % |

At December 31, 2021, the Bank had $10.7 million in municipal securities from a single issuer (other than the U.S. Government securities and securities of federal agencies and government-sponsored enterprises), which aggregated more than 10% of stockholders' equity.

Maturities and weighted average yields for investment securities at December 31, 2021 are presented in the following table:

| (dollars in thousands) | 2021 Amortized Cost | 2021 Fair Value | 2021 Yield (1), (2) |
|---|---|---|---|
| *Maturing Available for sale securities:* | | | |
| Within one year | $ — | $ — | — % |
| Over one to five years | 5,156 | 5,244 | 1.85 % |
| Over five to ten years | 35,455 | 35,287 | 1.36 % |
| Over ten years | 116,081 | 115,396 | 2.06 % |
| Total debt securities | $ 156,692 | $ 155,927 | |

(1) Yields are stated as book yields which are adjusted for amortization and accretion of purchase premiums and discounts, respectively.
(2) Yields on tax-exempt obligations have been computed on a tax-equivalent basis.

### Restricted Equity Securities

Restricted equity securities were $1.1 million and $1.2 million at December 31, 2021 and 2020, respectively.

### Loans

A comparison of the loan portfolio for the years indicated is presented in the following table:

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2020 | | 2019 | | 2018 | | 2017 | |
| (dollars in thousands) | $ | % | $ | % | $ | % | $ | % | $ | % |
| Loans Secured by Real Estate | | | | | | | | | | |
| Construction and land | $ 4,087 | 2 % | $ 2,553 | 1 % | $ 6,565 | 2 % | $ 3,949 | 1 % | $ 1,216 | 1 % |
| Farmland | 342 | — | 350 | — | 357 | — | 364 | — | 374 | — |
| Singlefamily residential | 78,119 | 37 | 82,520 | 33 | 88,214 | 32 | 92,104 | 31 | 91,953 | 34 |
| Multifamily | 5,428 | 3 | 6,105 | 2 | 6,397 | 2 | 5,664 | 2 | 5,141 | 2 |
| Commercial | 48,729 | 23 | 57,027 | 22 | 63,337 | 22 | 61,659 | 21 | 70,118 | 26 |
| Total loans secured by real estate | 136,705 | 65 | 148,555 | 58 | 164,870 | 58 | 163,740 | 55 | 168,802 | 63 |
| Commercial and Industrial | | | | | | | | | | |
| Commercial and industrial | 10,003 | 5 | 10,800 | 4 | 11,012 | 4 | 11,675 | 4 | 11,395 | 4 |
| SBA guaranty | 6,397 | 3 | 7,200 | 3 | 3,917 | 1 | 3,851 | 1 | 1,683 | 1 |
| Comm SBA PPP | 1,047 | — | 9,912 | 4 | — | — | — | — | — | — |
| Total commercial and industrial loans | 17,447 | 8 | 27,912 | 11 | 14,929 | 5 | 15,526 | 5 | 13,078 | 5 |
| Consumer Loans | | | | | | | | | | |
| Consumer | 2,090 | 1 | 3,063 | 1 | 3,267 | 1 | 3,498 | 1 | 423 | — |
| Automobile | 54,150 | 26 | 74,242 | 30 | 101,672 | 36 | 116,356 | 39 | 89,309 | 32 |
| Total consumer loans | 56,240 | 27 | 77,305 | 31 | 104,939 | 37 | 119,854 | 40 | 89,732 | 32 |
| Gross loans | 210,392 | 100 % | 253,772 | 100 % | 284,738 | 100 % | 299,120 | 100 % | 271,612 | 100 % |
| Allowance for credit losses | (2,470) | | (1,476) | | (2,066) | | (2,541) | | (2,589) | |
| Net loans | $ 207,922 | | $ 252,296 | | $ 282,672 | | $ 296,579 | | $ 269,023 | |

The Company's net loan receivables decreased by $44.4 million to $207.9 million at December 31, 2021 from $252.3 million at December 31, 2020 primarily due to pay downs outpacing $55.8 million in new originations. This change in the composition of the loan portfolio resulted primarily from a $11.9 million decrease in loans secured by real estate, and a $10.5 million decrease in commercial and industrial loans and a $21.1 million decrease in consumer loans. As a specific strategy, the Company will increase the loan portfolio opportunistically through the addition of indirect consumer loans, which provide shorter-term loans. This strategy mitigates the negative impact on the net interest margin of the runoff of other loan product with higher yields.

The following table summarizes the scheduled repayments of our loan portfolio, both by loan category and by fixed and adjustable rates, at December 31, 2021. Demand loans and loans which have no stated maturity, are treated as due in one year or less.

| | Due Within One Year | Due Over One To Five Years | Due Over Five Years | Total |
|---|---|---|---|---|
| | | (dollars in thousands) | | |
| **By Loan Category:** | | | | |
| Loans Secured by Real Estate | | | | |
| Construction and land | $ 1,399 | $ 66 | $ 2,622 | $ 4,087 |
| Farmland | — | — | 342 | 342 |
| Singlefamily residential | 293 | 984 | 76,842 | 78,119 |
| Multifamily | — | 190 | 5,238 | 5,428 |
| Commercial | 2,616 | 2,676 | 43,437 | 48,729 |
| Total loans secured by real estate | 4,308 | 3,916 | 128,481 | 136,705 |
| Commercial and Industrial | | | | |
| Commercial and industrial | 515 | 2,138 | 7,350 | 10,003 |
| SBA guaranty | — | 26 | 6,371 | 6,397 |
| Comm SBA PPP | 10 | 1,037 | — | 1,047 |
| Total commercial and industrial loans | 525 | 3,201 | 13,721 | 17,447 |
| Consumer Loans | | | | |
| Consumer | 11 | 362 | 1,717 | 2,090 |
| Automobile | 1,295 | 38,099 | 14,756 | 54,150 |
| Total consumer loans | 1,306 | 38,461 | 16,473 | 56,240 |
| Gross loans | $ 6,139 | $ 45,578 | $ 158,675 | $ 210,392 |
| | | | | |
| **By Rate Term:** | | | | |
| Fixed rate | 5,617 | 44,385 | 115,426 | 165,428 |
| Adjustable rate | 521 | 1,193 | 43,250 | 44,964 |
| Total | $ 6,138 | $ 45,578 | $ 158,676 | $ 210,392 |

Loans are placed on nonaccrual status when they are past due 90 days as to either principal or interest or when, in the opinion of management, the collection of all interest and/or principal is in doubt. Placing a loan on nonaccrual status means that we no longer accrue interest on such loan and reverse any interest previously accrued but not collected. Management may grant a waiver from nonaccrual status for a 90 day past due loan that is both well secured and in the process of collection. An asset is “well secured” if it is secured by (1) collateral in the form of liens on or pledges of real or personal property, including securities that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) the guarantee of a financially responsible party. An asset is “in the process of collection” if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in prepayment of the debt or in its restoration to a current status in the near future. A loan remains on nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to make payments in accordance with the terms of the loan and remains current.

A loan is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the fair value of the collateral for collateral dependent loans and at the present value of expected future cash flows using the loans’ effective interest rates for loans that are not collateral dependent.

The Bank seeks to control delinquencies through diligent collection efforts. For consumer loans, the Bank sends out payment reminders on the seventh and twelfth days after a payment is due. If a consumer loan becomes 15 days past due, the account is transferred to the Bank’s collections department, which will contact the borrower by telephone and/or letter before the account becomes 30 days past due. If a consumer loan becomes more than 30 days past due, the Bank will continue its collection efforts and will move to repossession or foreclosure by the 45th day if the Bank has reason to believe that the collateral may be in jeopardy or the borrower has failed to respond to prior communications. The Bank may move to repossess or foreclose in all instances in which a consumer loan becomes more than 60 days delinquent. After repossession of a motor vehicle, the borrower has a 15-day statutory right to redeem the vehicle and is entitled to 10 days' notice before the sale of a repossessed vehicle. The Bank sells the vehicle as promptly as feasible after the expiration of these periods. If the amount realized from the sale of the vehicle is less than the loan amount, the Bank may seek a deficiency judgment against the borrower. The Bank follows similar collection procedures with respect to commercial loans.

Our current charge-off policy is as follows:

When the probability for full payment of a loan is unlikely, the Bank will initiate a full charge-off or a partial write-down of the asset based upon the status of the loan. The following guidelines apply:

- Consumer loans less than $25,000 for which payments of principal and/or interest are past due ninety (90) days are charged-off and referred for collection. Consumer loans of $25,000 or more shall be evaluated for charge-off or partial write-down at the discretion of Bank management.
- Any other loan over 120 days past due shall be evaluated for charge-off or partial write-down at the discretion of Bank management. Any non-consumer unsecured loan more than 180 days delinquent in payment of principal and/or interest (or sooner if deemed uncollectible) is charged-off in full.
- If secured, a charge-off is made to reduce the loan balance to a level equal to the anticipated liquidation value of the collateral when payment of principal and/or interest is more than 180 days delinquent, or prior to that if deemed uncollectible.
- Generally, real estate secured loans are charged-off on a deficiency basis after liquidation of the collateral. In some cases, Bank management may determine that a charge-off or write-down is appropriate prior to liquidation of the collateral, when the full loan balance is clearly uncollectible and some loss is anticipated. In order to make this determination, an updated evaluation or appraisal of the property is obtained.

The Bank experienced a $4.2 million or 92.2% decrease in the total nonperforming loans in 2021. The following table presents details of our nonperforming loans and nonperforming assets, as these asset quality metrics are evaluated by management, for the years indicated:

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| **(dollars in thousands)** | **2021** | **2020** | **2019** | **2018** | **2017** |
| Nonaccrual loans | $ 338 | $ 4,512 | $ 4,127 | $ 1,947 | $ 3,270 |
| TDR loans excluding those in nonaccrual loans | - | - | - | 204 | 217 |
| Accruing loans past due 90+ days | 15 | 18 | 21 | 26 | 60 |
| Total nonperforming loans | 353 | 4,530 | 4,148 | 2,177 | 3,547 |
| Real estate acquired through foreclosure | - | 575 | 705 | 705 | 114 |
| Total nonperforming assets | $ 353 | $ 5,105 | $ 4,853 | $ 2,882 | $ 3,661 |
| Nonperforming loans to gross loans | 0.2 % | 1.8 % | 1.5 % | 0.7 % | 1.3 % |
| Allowance for credit losses to nonperforming loans | 700.3 % | 32.6 % | 49.8 % | 116.7 % | 73.0 % |

Nonperforming assets, which consist of nonaccrual loans, troubled debt restructurings, accruing loans past due 90 days or more, and real estate acquired through foreclosure, decreased $4.8 million at December 31, 2021 from $5.1 million at December 31, 2020 to $0.3 million at December 31, 2021. Nonperforming assets represented 0.08% of total assets at December 31, 2021, compared to 1.22% at December 31, 2020. The level of nonperforming assets decreased primarily due to the resolution of nonaccrual loans and sale of OREO. Management has worked diligently to identify borrowers that may be facing difficulties in order to restructure terms where appropriate, secure additional collateral or pursue foreclosure and other secondary sources of repayment.

**Allowance for Credit Losses - Loans and Credit Risk Management**

Credit risk is the risk of loss arising from the inability of a borrower to meet his or her obligations and entails both general risks, which are inherent in the process of lending, and risks specific to individual borrowers. Credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry, or collateral type. Residential mortgage and home equity loans and lines generally have the lowest credit loss experience. Loans secured by personal property, such as auto loans, generally experience medium credit losses. Unsecured loan products, such as personal revolving credit, have the highest credit loss experience and for that reason, the Bank has chosen not to engage in a significant amount of this type of lending. Credit risk in commercial lending can vary significantly, as losses as a percentage of outstanding loans can shift widely during economic cycles and are particularly sensitive to changing economic conditions. Generally, improving economic conditions result in improved operating results on the part of commercial customers, enhancing their ability to meet their particular debt service requirements. Improvements, if any, in operating cash flows can be offset by the impact of rising interest rates that may occur during improved economic times. Inconsistent economic conditions may have an adverse effect on the operating results of commercial customers, reducing their ability to meet debt service obligations.

On January 1, 2021, the Company early adopted ASU 2016-13, Financial Instruments - Credit Losses (“ASC 326”) which replaces the “incurred loss approach” for estimating credit losses with an expected loss methodology. The incurred loss model delayed the recognition of credit losses until it was probable that a loss had occurred, while the CECL model requires the immediate recognition of expected credit losses over the contractual term for financial instruments that fall within the scope of CECL at the date of origination or purchase of the financial instrument. The CECL model, which is applicable to the measurement of credit losses on financial assets measured at amortized cost and certain off-balance sheet credit exposures, affects the Company’s estimates of the allowance for credit losses for our loan portfolio and the reserve for our off-balance sheet credit exposures related to loan commitments. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. The allowance, based on all available information from internal and external sources, relevant to assessing the collectability of loans over their contractual terms, adjusted for expected prepayments when appropriate, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations are performed for each class of loans and take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral securing the loans and current economic conditions and trends that may affect the borrowers’ ability to pay. For example, delinquencies in unsecured loans and indirect automobile installment loans will be reserved for at significantly higher ratios than loans secured by real estate. Finally, the Company considers forecasts about future economic conditions or changes in collateral values that are reasonable and supportable. Based on that analysis, the Bank deems its allowance for credit losses in proportion to the total nonaccrual loans and past due loans to be sufficient.

The allowance was $2.5 million at December 31, 2021, compared to $1.5 million at December 31, 2020. The allowance as a percentage of total portfolio loans was 1.17% at December 31, 2021 and 0.58% at December 31, 2020.

During the year ended December 31, 2021, we recorded net recoveries of $0.4 million, compared to net recoveries of $0.1 million during the year ended December 31, 2020.

The following table reflects activity in the allowance for credit losses - loans for the periods indicated:

| | Year Ended December 31, 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| | (dollars in thousands) | | | | |
| Beginning Balance | $ 1,476 | $ 2,066 | $ 2,541 | $ 2,589 | $ 2,484 |
| Impact of ASC 326 adoption | 1,574 | — | — | — | — |
| Loans charged-off | | | | | |
| Loans Secured by Real Estate | | | | | |
| Construction and land | — | — | — | — | — |
| Farmland | — | — | — | — | — |
| Singlefamily residential | — | — | 16 | 589 | — |
| Multifamily | — | — | — | — | — |
| Commercial | — | — | — | 13 | — |
| Total loans secured by real estate | — | — | 16 | 602 | — |
| Commercial and Industrial | | | | | |
| Commercial and industrial | — | — | 27 | — | 8 |
| SBA guaranty | — | — | — | — | — |
| Comm SBA PPP | — | — | — | — | — |
| Total commercial and industrial loans | — | — | 27 | — | 8 |
| Consumer Loans | | | | | |
| Consumer | 2 | — | — | 68 | 16 |
| Automobile | 251 | 392 | 573 | 481 | 542 |
| Total consumer loans | 253 | 392 | 573 | 549 | 558 |
| Total | 253 | 392 | 616 | 1,151 | 566 |
| | | | | | |
| Recoveries | | | | | |
| Loans Secured by Real Estate | | | | | |
| Construction and land | — | — | — | — | — |
| Farmland | — | — | — | — | — |
| Singlefamily residential | 408 | 266 | 4 | 2 | 27 |
| Multifamily | — | — | — | — | — |
| Commercial | — | — | — | — | 14 |
| Total loans secured by real estate | 408 | 266 | 4 | 2 | 41 |
| Commercial and Industrial | | | | | |
| Commercial and industrial | — | 20 | 10 | 14 | — |
| SBA guaranty | — | — | — | — | — |
| Comm SBA PPP | — | — | — | — | — |
| Total commercial and industrial loans | — | 20 | 10 | 14 | — |
| Consumer Loans | | | | | |
| Consumer | — | 6 | 10 | 6 | 1 |
| Automobile | 240 | 199 | 232 | 225 | 293 |
| Total consumer loans | 240 | 205 | 242 | 231 | 294 |
| Total | 648 | 491 | 256 | 247 | 335 |
| | | | | | |
| Net (recoveries) charge offs | (1,969) | (99) | 360 | 904 | 231 |
| (Release) provisions for credit loss | (975) | (689) | (115) | 856 | 336 |
| Balance at end of year | $ 2,470 | $ 1,476 | $ 2,066 | $ 2,541 | $ 2,589 |
| | | | | | |
| Allowance as a percentage of total loans at the end of the year | 1.17 % | 0.58 % | 0.73 % | 0.85 % | 0.95 % |
| Net (recoveries) charge offs as a percentage of average loans during the year | (0.84)% | (0.04)% | 0.12 % | 0.32 % | 0.09 % |

The following table reflects the amount and percentage of credit loss allowance for each category for the periods indicated:

| Portfolio | At December 31, 2021 Allowance For Each Category | 2021 Percentage Of Loans In Each Category To Total Loans | 2020 Allowance For Each Category | 2020 Percentage Of Loans In Each Category To Total Loans |
|---|---|---|---|---|
| (dollars in thousands) | | | | |
| Loans Secured by Real Estate | | | | |
| Construction and land | $ 5 | 0.21 % | $ 9 | 0.64 % |
| Farmland | 11 | 0.43 | 2 | 0.15 |
| Singlefamily residential | 1,357 | 54.97 | 513 | 34.77 |
| Multifamily | 105 | 4.24 | 39 | 2.67 |
| Commercial | 278 | 11.25 | 218 | 14.74 |
| Total loans secured by real estate | 1,756 | 71.10 | 781 | 52.97 |
| Commercial and Industrial | | | | |
| Commercial and industrial | 115 | 4.67 | 67 | 4.51 |
| SBA guaranty | 30 | 1.23 | 48 | 3.24 |
| Comm SBA PPP | — | — | — | — |
| Total commercial and industrial loans | 145 | 5.90 | 115 | 7.75 |
| Consumer Loans | | | | |
| Consumer | 36 | 1.44 | 11 | 0.72 |
| Automobile | 533 | 21.56 | 569 | 38.56 |
| Total consumer loans | 569 | 23.00 | 580 | 39.28 |
| Total | $ 2,470 | 100.00 % | $ 1,476 | 100.00 % |

### Deposits

The funds needed by the Bank to make loans are primarily generated by deposit accounts solicited from the communities in Anne Arundel County. The Bank's deposit products include savings accounts, money market deposit accounts, demand deposit accounts, NOW checking accounts, IRA and SEP accounts and certificates of deposit. The Bank does not solicit brokered deposits. Variations in service charges, terms and interest rates are used to target specific markets. Ancillary products and services for deposit customers include safe deposit boxes, money orders, night depositories, automated clearinghouse transactions, wire transfers, ATMs, electronic banking (telephone banking, online banking, bill pay, card control, mobile app, merchant source capture, mobile deposit capture, Zelle®, etc.). The Bank is a member of the Accel(R) and MoneyPass(R) ATM networks.

The following deposit table presents the composition of deposits at December 31, 2021 and 2020:

| | 2021 | | 2020 | | 2021 vs 2020 | |
|---|---|---|---|---|---|---|
| | Amount in thousands | % of Total | Amount in thousands | % of Total | $ Change | % Change |
| Noninterest-bearing deposits | $ 155,624 | 40.6 % | $ 132,626 | 37.9 % | $ 22,998 | 17.3 % |
| Interest-bearing deposits: | | | | | | |
| Checking | 37,305 | 9.7 % | 32,601 | 9.3 % | 4,704 | 14.4 % |
| Savings | 106,818 | 28.0 % | 97,036 | 27.8 % | 9,782 | 10.1 % |
| Money market | 23,103 | 6.0 % | 19,077 | 5.5 % | 4,026 | 21.1 % |
| Total interest-bearing checking, savings and money market deposits | 167,226 | 43.7 % | 148,714 | 42.6 % | 18,512 | 12.4 % |
| Time deposits under $100,000 | 35,773 | 9.3 % | 40,010 | 11.4 % | (4,237) | (10.6)% |
| Time deposits of $100,00 or more | 24,624 | 6.4 % | 28,270 | 8.1 % | (3,646) | (12.9)% |
| Total time deposits | 60,397 | 15.7 % | 68,280 | 19.5 % | (7,883) | (11.5)% |
| Total interest-bearing deposits | 227,623 | 59.4 % | 216,994 | 62.1 % | 10,629 | 4.9 % |
| Total Deposits | $ 383,247 | 100.0 % | $ 349,620 | 100.0 % | $ 33,627 | 9.6 % |

Total deposits were $383.2 million at December 31, 2021, an increase of $33.6 million, or 9.6%, when compared to the $349.6 million recorded at December 31, 2020. Within the deposit base, noninterest bearing deposits balances increased $23.0 million, or 17.3%, interest bearing checking account balances increased $4.7 million, or 14.4%, interest bearing savings account balances increased by $9.8 million, or 10.1%, money market balances increased $4.0 million, or 21.1%, and time deposit balances decreased by $7.9 million, or 11.5%, when compared to the amounts at December 31, 2020.

The following table presents the maturity distribution for time deposits of $100,000 or more at December 31, 2021:

| (dollars in thousands) | Amount |
|---|---|
| Three months or less | $ 2,284 |
| Over three months through twelve months | 10,945 |
| Over twelve months through twenty-four months | 3,295 |
| Over twenty-four months | 8,100 |
| Total Time Deposits of $100,000 or More | $ 24,624 |

**Borrowings**

The Bank uses borrowings from the Federal Home Loan Bank ("FHLB") of Atlanta, of which it is a member, to supplement funding from deposits. The Bank's total credit availability is $108.2 million at December 31, 2021 and it may draw $35.6 million which is secured by a floating lien on the Bank's residential first mortgage loans. There was a $5.0 million adjustable rate advance issued on December 24, 2021, which has a final maturity of August 24, 2023. This advance has a 0.26000% interest rate at December 31, 2021, with interest payable quarterly. The proceeds of the adjustable rate advance were used as a hedging instrument for the Company's interest rate swap agreements. There was a $5.0 million adjustable rate advance issued on December 27, 2021, which has a final maturity of July 27, 2023. This advance has a 0.28000% interest rate at December 31, 2021, with interest payable quarterly. The proceeds of the adjustable rate advance were used as a hedging instrument for the Company's interest rate swap agreements. There was a $10.0 million adjustable rate advance issued on December 31, 2021, which has a final maturity of October 31, 2022. This advance had a 0.20000% interest rate at December 31, 2021, with interest payable quarterly. The proceeds of the adjustable advance were used as a hedging instrument for the Company's interest rate swap agreements.

The pay-fixed swap executed November 1, 2017 is based on a $10.0 million notional amount, matures on October 30, 2022 (5 years) and has a floating received leg based on 1-Day SOFR and a fixed rate payment of 2.105%. The Bank also entered into two $5.0 million variable rate (1-Day SOFR) borrowings that were converted into a 2.235% and 2.246% fixed rate payment using a pay-fixed swap that matures on July 23, 2023 and August 22, 2023, respectively. The market value of the derivative contracts at December 31, 2021 was a loss of $442,000.

The Bank also had available unsecured federal funds lines of credit from two financial institutions for $9.0 million and $8.0 million December 31, 2021.

**CAPITAL RESOURCES**

Ample capital is necessary to sustain growth, provide a measure of protection against unanticipated declines in asset values and safeguard the funds of depositors. Capital also provides a source of funds to meet loan demand and enables us to manage assets and liabilities effectively.

Stockholders' equity decreased to $35.7 million at December 31, 2021, compared to $37.1 million at December 31, 2020. The $1.4 million, or 3.71%, decrease for the year ended December 31, 2021 resulted primarily from $1.8 million net unrealized losses on the available for sale bond portfolio and a $94,000 decrease in retained earnings, offset by $131,000 stock issuances under the dividend reinvestment program and a $368,000 decrease in net unrealized losses on interest rate swap contracts. The book value of the Company's common stock was $12.51 at December 31, 2021 and $13.05 at December 31, 2020.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our 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 its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The capital requirements to which the Bank is subject are known as the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. These Basel III Capital Rules and have been applicable to the Bank since January 1, 2015.

Specifically, the rule imposes the following minimum capital requirements to be considered adequately capitalized:

- A common equity Tier 1 risk based capital ratio of 4.50%;
- A Tier 1 risk-based capital ratio of 6.00%;
- A total risk-based capital ratio of 8.00%; and
- A leverage ratio of 4.00%.

Under the rule, common equity Tier 1 capital includes accumulated other comprehensive income (which includes all unrealized net gains and losses on available for sale debt and equity securities and all unrealized net gain or loss on defined benefit pension plan), subject to a one-time opt-out election. The Bank elected to opt-out of this provision. As such, accumulated comprehensive income is not included in determining the Bank's regulatory capital ratios.

The rule also includes risk weights of assets to reflect credit risk and other risk exposures. These include a 150% risk weight for certain high volatility commercial real estate acquisitions, development and construction loans and non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status, a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, a 250% risk weight (up from 100%) for deferred tax assets that are not deducted from capital and increased risk weights (from 0% to up to 600%) for certain equity exposures.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.50% of common equity Tier 1 capital to risk weighted assets in addition to the amount necessary to meet its minimum risk based capital requirements.

For regulatory capital purposes, deferred tax assets that arise from net operating loss and tax credit carryforwards (net of any related valuations allowances and net of deferred tax liabilities) are excluded from regulatory capital, in addition to certain overall limits on net deferred tax assets as a percentage of common equity Tier 1 capital. At December 31, 2021, none of the Bank’s net deferred tax asset was excluded from common equity Tier 1, Tier 1 and total regulatory capital. We will continue to evaluate the realizability of our net deferred tax asset on a quarterly basis for both financial reporting and regulatory capital purposes. This evaluation may result in the inclusion of a deferred tax asset in regulatory capital in an amount that is different from the amount determined under GAAP.

In addition, the Bank is required to maintain a minimum level of Tier 1 capital to average total assets excluding intangibles. This measure is known as the leverage ratio. The current regulatory minimum for the leverage ratio for institutions to be considered “well capitalized” is 5.00%, but an individual institution could be required to maintain a higher level.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios (set forth in the table below) of total, common equity Tier 1 and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio of Tier 1 capital (as defined) to average tangible assets (as defined). At December 31, 2021 and 2020, the Bank had regulatory capital in excess of that required under each requirement and was classified as “well capitalized”.

Actual capital amounts and ratios for the Bank are presented in the following tables (dollars in thousands):

| | Actual | | To Be Considered Adequately Capitalized | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| **As of December 31, 2021** | | | | | | |
| Common Equity Tier 1 Capital | $ 37,592 | 15.32 % | $ 11,044 | 4.50 % | $ 15,952 | 6.50 % |
| Total Risk-Based Capital | $ 39,329 | 16.03 % | $ 19,634 | 8.00 % | $ 24,542 | 10.00 % |
| Tier 1 Risk-Based Capital | $ 37,592 | 15.32 % | $ 14,725 | 6.00 % | $ 19,634 | 8.00 % |
| Tier 1 Leverage | $ 37,592 | 8.40 % | $ 17,910 | 4.00 % | $ 22,388 | 5.00 % |

| | Actual | | To Be Considered Adequately Capitalized | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| **As of December 31, 2020** | | | | | | |
| Common Equity Tier 1 Capital | $ 36,442 | 13.09% % | $ 12,532 | 4.50 % | $ 18,101 | 6.50 % |
| Total Risk-Based Capital | $ 37,951 | 13.63% % | $ 22,278 | 8.00 % | $ 27,848 | 10.00 % |
| Tier 1 Risk-Based Capital | $ 36,442 | 13.09% % | $ 16,709 | 6.00 % | $ 22,278 | 8.00 % |
| Tier 1 Leverage | $ 36,442 | 9.12% % | $ 15,980 | 4.00 % | $ 19,975 | 5.00 % |

Federal bank regulatory agencies are required to take certain supervisory actions against an undercapitalized bank, the severity of which depends upon the bank’s degree of capitalization. Failure to maintain an appropriate level of capital could cause the regulator to take any one or more of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

**LIQUIDITY**

Liquidity describes our ability to meet financial obligations, including lending commitments and contingencies, which arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Company's customers, as well as to meet current and planned expenditures. Management monitors the liquidity position daily.

Our liquidity is derived primarily from our deposit base, scheduled amortization and prepayments of loans and investment securities, funds provided by operations and capital. Additionally, liquidity is provided through our portfolios of cash and interest-bearing deposits in other banks, federal funds sold and securities available for sale. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by the Bank's competitors.

The borrowing requirements of customers include commitments to extend credit and the unused portion of lines of credit, which totaled $28.2 million at December 31, 2021. Management notes that, historically, a small percentage of unused lines of credit are actually drawn down by customers within a 12-month period.

Our most liquid assets are cash and assets that can be readily converted into cash, including interest-bearing deposits with banks and federal funds sold, and investment securities. At December 31, 2021, we had $2.1 million in cash and due from banks, $60.1 million in interest-bearing deposits with banks and federal funds sold, and $156.0 million in investment securities available for sale.

The Bank also has external sources of funds through FHLB, which can be drawn upon when required. The Bank has a line of credit totaling approximately $108.2 million with the FHLB of which $88.2 million was available to be drawn on December 31, 2021 based on qualifying loans and securities pledged as collateral.

At December 31, 2021, there were outstanding balances of $20.0 million under the Bank's FHLB line of credit.

Additionally, the Bank has unsecured federal funds lines of credit totaling $17.0 million with two institutions. The proceeds of the Company's line of credit may be used for general corporate purposes.

To further aid in managing liquidity, the Bank's Board of Directors has approved and formed an Asset/Liability Management Committee ("ALCO") to review and discuss recommendations for the use of available cash and to maintain an investment portfolio. By limiting the maturity of securities and maintaining a conservative investment posture, management can rely on the investment portfolio to help meet any short-term funding needs.

We believe the Bank has adequate cash on hand and available through liquidation of investment securities and available borrowing capacity to meet our liquidity needs. Although we believe sufficient liquidity exists, if economic conditions and consumer confidence deteriorate, this liquidity could be depleted, which would then materially affect our ability to meet operating needs and to raise additional capital.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Bank is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements.

Loan commitments and lines of credit are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Many of the loan commitments and lines of credit are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral and obtains personal guarantees supporting those commitments for which collateral or other securities is deemed necessary.

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment.

Currently, we break-out our unfunded commitments into the following categories:

- Unfunded Construction Commitments
- Unfunded Commercial Lines of Credit and Other
- Unfunded Home Equity LOC
- Unfunded Demand Deposit Overdraft LOC
- Committed Loans Which Have Not Closed
- Letters of Credit

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2021, the Bank has accrued $370,680 as a reserve for credit losses on unfunded commitments, an increase of $337,799 from the $32,881 accrued as of December 31, 2020. Unfunded commitments related to these financial instruments with off balance sheet risk, are included in other liabilities. The additional provision amount is included in 'other expense'.

**MARKET RISK MANAGEMENT**

Our primary market risk is interest rate fluctuation. Interest rate risk results primarily from the traditional banking activities in which the Bank engages, such as gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates and consumer preferences affect the difference between the interest earned on our assets and the interest paid on liabilities. Our interest rate risk represents the level of exposure we have to fluctuations in interest rates and is primarily measured as the change in earnings and the theoretical market value of equity that results from changes in interest rates. The ALCO oversees our management of interest rate risk. The objective of the management of interest rate risk is to maximize stockholder value, enhance profitability and increase capital, serve customer and community needs, and protect us from any material financial consequences associated with changes in interest rate risk.

Interest rate risk is that risk to earnings or capital arising from movement of interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships across yield curves that affect bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest rate related options embedded in certain bank products (option risk). Changes in interest rates may also affect a bank's underlying economic value. The value of a bank's assets, liabilities, and interest-rate related, off-balance sheet contracts is affected by a change in rates because the present value of future cash flows, and in some cases the cash flows themselves, is changed.

We believe that accepting some level of interest rate risk is necessary in order to achieve realistic profit goals. Management and the Board have chosen an interest rate risk profile that is consistent with our strategic business plan.

The Company's Board of Directors has established a comprehensive interest rate risk management policy, which is administered by ALCO. The policy establishes limits on risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity or "EVE" at risk) resulting from a hypothetical change in U.S. Treasury interest rates. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology we employ. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

We prepare a current base case and up to eight alternative simulations at least once a quarter and report the analysis to the Board of Directors. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions or strategy analysis so dictate.

The statement of condition is subject to quarterly testing for up to eight alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/ - 100, 200, 300, and 400 basis points ("bp"), although we may elect not to use particular scenarios that we determine are impractical in the current rate environment. It is our goal to structure the balance sheet so that net interest-earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

At December 31, 2021, we were in a neutral to slightly asset sensitive position. Management continuously strives to reduce higher costing fixed rate funding instruments, while increasing assets that are more fluid in their repricing. An asset sensitive position, theoretically, is favorable in a rising rate environment since more assets than liabilities will reprice in a given time frame as interest rates rise. Similarly, a liability sensitive position, theoretically, is favorable in a declining interest rate environment since more liabilities than assets will reprice in a given time frame as interest rates decline. Management works to maintain a consistent spread between yields on assets and costs of deposits and borrowings, regardless of the direction of interest rates.

| | Static Balance Sheet/Immediate Change in Rates | | | |
|---|---|---|---|---|
| **Estimated Changes in Net Interest Income** | **-200 bp** | **-100 bp** | **+100 bp** | **+200 bp** |
| Policy Limit | -15% | -10% | -10% | -15% |
| **December 31, 2021** | **-11%** | **-7%** | **9 %** | **20 %** |
| December 31, 2020 | -7% | -5% | 6 % | 15 % |

As shown above, measures of net interest income at risk were slightly more favorable at December 31, 2021 than at December 31, 2020 over a 12 month modeling period. All measures remained within prescribed policy limits, however, down interest-rate scenarios are less meaningful as our model cannot shock below zero.

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

| | Static Balance Sheet/Immediate Change in Rates | | | |
|---|---|---|---|---|
| **Estimated Changes in Economic Value of Equity (EVE)** | **-200 bp** | **-100 bp** | **+100 bp** | **+200 bp** |
| Policy Limit | -15% | -10% | -10% | -15% |
| **December 31, 2021** | **-40%** | **-18%** | **6 %** | **9 %** |
| December 31, 2020 | -37% | -26% | 8 % | 12 % |

The EVE at risk declined at December 31, 2021 when compared to December 31, 2020 in the down 200 bp interest rate shock levels and in the up interest rate shock levels. The Company's economic value of equity has a negative effect in a declining interest rate environment and a positive effect in an increasing interest rate environment because the liabilities reprice at a much slower rate than our assets, and our interest earning assets are much greater than our interest-bearing liabilities. The Company's economic value of equity worsens in declining interest rate environments as the majority of our liabilities cannot continue to decrease from their current levels thus the economic value of our liabilities and our assets both worsen in a declining rate environment i.e., given the current rate environment, down shocks may not be meaningful as market rates can only be shocked down to zero.

## IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, nearly all of the Company's assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

## CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and follow general practices within the industries in which we operate. All intercompany transactions are eliminated in consolidation and certain reclassifications are made when necessary in order to conform the previous year's financial statements to the current year's presentation. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates or judgments reflect management's view of the most appropriate manner in which to record and report our overall financial performance. Because these estimates or judgments are based on current circumstances, they may change over time or prove to be inaccurate based on actual experience. As such, changes in these estimates, judgments, and/or assumptions may have a significant impact on our financial statements. All accounting policies are important, and all policies described in Part II, Item 8, Financial Statements and Supplementary Data, Note 1, should be reviewed for a greater understanding of how our financial performance is recorded and reported.

We have identified the following three policies as being critical because they require management to make particularly difficult, subjective, and/or complex estimates or judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the determination of the allowance for credit losses - loans, fair value measurements and the accounting for income taxes. Management believes it has used the best information available to make the estimations or judgments necessary to value the related assets and liabilities. Actual performance that differs from estimates or judgments and future changes in the key variables could change future valuations and impact net income. Management has reviewed the application of these policies with the Audit Committee of the Board of Directors. Following is a discussion of the areas we view as our most critical accounting policies, including the identification of the variables most important in the estimation process.

### Allowance for Credit Losses - Loans

The Company maintains an allowance for credit losses ("ACL") for the expected credit losses of the loan portfolio as well as unfunded loan commitments. The amount of ACL is based on ongoing, quarterly assessments by management. The CECL methodology requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures) and replaces the incurred loss methodology's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred. The Company also considers qualitative adjustments to the historical loss rate for each loan portfolio class. The qualitative adjustments for each loan class consider the conditions over the 20-year look-back period from which historical loss experience was based and are split into two components: 1) asset or class specific risk characteristics or current conditions at the reporting date related to portfolio credit quality, remaining payments, volume and nature, credit culture and management, business environment or other management factors; and 2) reasonable and supportable forecast of future economic conditions and collateral values. Our accounting policy related to the reserve is disclosed in Note 1 under the heading "Allowance for Credit Losses - Loans."

### Fair Value Measurements

We use fair value measurements to record certain financial instruments and to determine fair value disclosures. Available for sale securities and interest rate swap agreements are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve write-downs of, or specific reserves against, individual assets. GAAP establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market data. For financial instruments that trade actively and have quoted market prices or observable market data, there is minimal subjectivity involved in measuring fair value. When observable market prices and data are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we use valuation techniques that require more management judgment to estimate the appropriate fair value measurement. Fair value is discussed further in Note 1 under the heading "Fair Value Measurements" and in Note 15, "Fair Value of Financial Instruments".

### Accounting for Income Taxes

We use the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates in effect when these differences reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We exercise significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future.

Other significant accounting policies are presented in Note 1 to the consolidated financial statements that appear elsewhere in this Annual Report on Form 10K. We have not substantively changed any aspect of our overall approach in the application of the foregoing policies.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DICLOSURES ABOUT MARKET RISK

Not applicable.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this Item 8 are included in the Company's Consolidated Financial Statements and set forth in the pages indicated in Item 15 of this Annual Report.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated this system of disclosure controls and procedures as of the end of the period covered by this annual report, and have concluded that the system is effective.

### Management's Annual Report on Internal Control over Financial Reporting

The Company's management, including its CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management (with the participation of the Company's CEO and CFO) conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2021.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the fourth quarter of 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

Not applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the identity and business experience of the directors of the Company and their remuneration set forth in the section captioned "Proposal I — Election of Directors" in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A and issued in conjunction with the 2022 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference. The information with respect to the identity and business experience of executive officers of the Company is set forth in Part I of this Form 10-K. The information with respect to the Company's Audit Committee is incorporated herein by reference to the section captioned "Meetings and Committees of the Board of Directors" in the Proxy Statement. The information with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement. The information with respect to the Company's Code of Ethics is incorporated herein by reference to the section captioned "Code of Ethics" in the Proxy Statement.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections captioned "Director Compensation" and "Executive Compensation" in the Proxy Statement.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the sections captioned "Voting Securities and Principal Holders Thereof" and "Securities Ownership of Management" in the Proxy Statement.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the section captioned "Proposal I — Election of Directors" and "Transactions with Management" in the Proxy Statement.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section captioned "Proposal II — Authorization for Appointment of Auditors" "Disclosure of Independent Auditor Fees" in the Proxy Statement.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**(a) Financial Statements.**



**(a) 2. Financial Statement Schedules.**

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

**(a) 3. Exhibits required to be filed by Item 601 of Regulation S-K.**

| Exhibit No. | Description |
|---|---|
| 3.1 | Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047) |
| 3.2 | Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047) |
| 3.3 | Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047) |
| 3.4 | By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047) |
| 10.1 | Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No.33-62280) |
| 10.2 | The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943) |
| 10.3 | Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047) |
| 10.4 | The Bank of Glen Burnie Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, File No. 0-24047) |
| 21 | Subsidiary of the Registrant (incorporated by reference to Exhibit 21 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047) |
| 23.1 | Consent of UHY LLP, Certified Public AccountantsTGM Group LLC (filed herewith) |
| 23.2 | Consent of TGM Group LLC (filed herewith) |
| 31.1 | Rule 15d-14(a) Certification by the Principal Executive Officer (filed herewith) |
| 31.2 | Rule 15d-14(a) Certification by the Principal Accounting Officer (filed herewith) |
| 32 | Certification by the Principal Executive Officer and Principal Accounting Officer of the periodic financial reports, required by Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101.INS | Inline XBRL Instance Document (filed herewith) |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document (filed herewith) |

| | |
|---|---|
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith) |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith) |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith) |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith) |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLEN BURNIE BANCORP

March 25, 2022

By:/s/ John D. Long
John D. Long
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ John D. Long<br>John D. Long | President, Chief Executive Officer and Director | March 25, 2022 |
| /s/ Jeffrey D. Harris<br>Jeffrey D. Harris | Senior Vice President and Chief Financial Officer | March 25, 2022 |
| /s/ John E. Demyan<br>John E. Demyan | Chairman of the Board and Director | March 25, 2022 |
| /s/ Thomas Clocker<br>Thomas Clocker | Director | March 25, 2022 |
| /s/ Julie M. Mussog<br>Julie M. Mussog | Director | March 25, 2022 |
| /s/ F. W. Kuethe, III<br>F. W. Kuethe, III | Director | March 25, 2022 |
| /s/ Charles Lynch<br>Charles Lynch | Director | March 25, 2022 |
| /s/ Andrew Cooch<br>Andrew Cooch | Director | March 25, 2022 |
| /s/ Joan M. Rumenap<br>Joan M. Rumenap | Director | March 25, 2022 |
| /s/ Mary Louise Wilcox<br>Mary Louise Wilcox | Director | March 25, 2022 |
| /s/ Stanford D. Hess<br>Stanford D. Hess | Director | March 25, 2022 |

**Glen Burnie Bancorp and Subsidiary**

**Consolidated Financial Statements**

**December 31, 2021**

**CONTENTS**

UHY LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Glen Burnie Bancorp and Subsidiaries
Glen Burnie, Maryland

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Glen Burnie Bancorp and Subsidiaries (the "Company") as of December 31, 2021 and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year ended December 31, 2021, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Company has changed its method of accountingfor credit losses effective January 1, 2021 due to the adoption of Financial Accounting Standards Board(FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is toexpress an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financialstatements. We believe that our audit provides a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee andthat: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matterdoes not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter oron the accounts or disclosures to which it relates.

**Allowance for Credit Losses on Loans**

As discussed in Notes 1, the allowance for credit losses (the "ACL") is an accounting estimate of expectedcredit losses over the estimated life of financial assets carried at amortized cost and off-balance-sheet credit exposures in accordance with Accounting Standards Update (the "ASU") 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires financial assets, including the Company's loan portfolio, measured at amortized cost, to bepresented at the net amount expected to be collected. Estimates of expected credit losses for loans arebased on relevant information about past events, current conditions, and reasonable and supportable forecasts related to macroeconomic conditions, resulting in recognition of lifetime expected credit lossesupon loan origination. Release of credit loss provision for the year ending December 31, 2021 was $975,000 and the Allowance for Credit Losses at December 31, 2021 was $2,470,000. For most of our loan portfolio classes, the historical loss experience is determined using the Average Charge-Off Method. This method pools loans into groups ("cohorts") sharing similar risk characteristics and tracks each cohort's net charge-offs over the lives of the loans.

The Average Charge-Off Method uses historical values by period (20-year look-back) to calculate lossesand then applies the historical average to future balances over the life of the account. The historical lossrates for each cohort are then averaged to calculate an overall historical loss rate which is applied to thecurrent loan balance to arrive at the quantitative baseline portion of the allowance for credit losses for therespective loan portfolio class. For certain loan portfolio classes, the Company determined there was notsufficient historical loss information to calculate a meaningful historical loss rate using the average charge-off methodology. For any such loan portfolio class, peer group history contributes to the Company's weighted average loss history. The peer group data is included in the weighted average losshistory that is developed for each loan pool.

The Company also considers qualitative adjustments to the historical loss rate for each loan portfolio class. The qualitative adjustments for each loan class consider the conditions over the 20-year look-back period from which historical loss experience was based and are split into two components: 1) asset or class specific risk characteristics or current conditions at the reporting date related to portfolio credit quality, remaining payments, volume and nature, credit culture and management, business environmentor other management factors; and 2) reasonable and supportable forecast of future economic conditionsand collateral values.

The allowance for credit losses on loans was identified by us as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management throughout the determination process.

The principal considerations resulting in our determination included the following:

- Significant auditor judgment and effort were used in evaluating the qualitative factors used in thecalculation.
- Significant auditor judgment in evaluating the selection and application of the reasonable and supportable forecast of economic variables.
- Significant audit effort to test the relevance and reliability of the critical data used in themethodology.

The primary procedures performed to address this critical audit matter included:

- Testing the effectiveness of management's internal controls over the Company's significant modelassumptions and judgments, loan segmentation, reasonable and supportable forecasts, qualitative factor adjustments, relevance and reliability of data used in the model, charge-off approval, information systems and model validation
- Testing the effectiveness of controls over the Company's preparation and review of the allowancefor credit loss calculation, including data used as the basis for adjustments related to the qualitative factors, the development and reasonableness of qualitative factors and mathematicalaccuracy and appropriateness of the overall calculation
- Evaluating management's judgments in the selection of the loss estimation model as well as theloan segmentation and historical loss periods used in the model
- Evaluating management's judgments in the selection and application of reasonable and supportable forecast of economic variables
- Testing management's process for developing the qualitative factors and assessing reasonableness, relevance and reliability of data used to develop factors, including evaluating their judgments and assumptions for reasonableness

UHY LLP

We have served as the Company's auditor since 2021
Salisbury, Maryland
March 24, 2022

*Herbert J. Geary III*
*Roy J. Geiser*
*Chris A. Hall*
*Ronald W. Hickman*
*Mark. Welsh*

TGM GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS
www.tgmgroupllc.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Glen Burnie Bancorp and Subsidiaries
Glen Burnie, Maryland

**Opinion on the Financial Statements**
We have audited the accompanying consolidated balance sheets of Glen Burnie Bancorp and Subsidiaries (the "Company") as of December 31, 2020, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year ended December 31, 2020, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Critical Audit Matter**
The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Qualitative Factors used in the Allowance for Credit Losses - Loans – Refer to Notes 1 and 4 to the Consolidated Financial Statements**

*Critical Audit Matter Description*

As described in Notes 1 and 4 to the Company's consolidated financial statements, the Company had a gross loan portfolio of approximately $254 million and related allowance for credit losses - Loans of approximately $1.5 million as of December 31, 2020. The allowance for credit losses - loans includes a reserve for loans collectively evaluated for impairment of approximately $1.5 million and loans individually evaluated for impairment of approximately $11,000. The estimate of the collectively evaluated component of the allowance for credit losses - loans considers the Company's historical loss experience by loan segment. Each loan segment is reviewed and analyzed using the average historical charge-offs over the current and preceding four- year periods for their respective segments as well as adjusted for the qualitative factors.

These qualitative factors include changes in trends in volume and terms of loans, changes in loan concentrations, changes in the trends and severity of problem loans, current local and national economic conditions and trends including unemployment, changes in the banking industry including legal and regulatory requirements, changes in lending staff, policies and procedures, changes in the charge-offs and recoveries adjusted for rate and direction, changes in the trends and severity of findings and downgrades from independent loan reviews. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in the Company's historic loss experience.

We identified the qualitative factors used in the allowance for credit losses - loans as a critical audit matter because of the necessary judgement applied by us to evaluate management's significant estimates and subjective assumptions in determining qualitative adjustments.

*How the Critical Audit Matter was Addressed in the Audit*
Our audit procedures related to the qualitative factors used in the allowance for credit losses - loans included the following, among others:

- We obtained an understanding of management's processes for identifying relevant qualitative factors and quantifying related adjustments.
- We evaluated the design of controls over management's evaluation of the allowance related to the qualitative factors used in the allowance for credit losses - loans, including controls addressing management's review of the qualitative and quantitative analysis related to the qualitative risk factors.
- We evaluated the of reasonableness of management's judgments related to qualitative adjustments in comparison to management's policies.
- We considered whether qualitative factors were consistently applied period over period, where applicable.
- We evaluated whether management factors were supported by evidence from internal and external sources and loan portfolio performance.
- We analytically evaluated the allowance related to loans collectively evaluated for impairment by loan segment period over period for reasonableness against overall trends in the economy, industry, and loan portfolio performance.

TGM Group LLC

We have served as the Company's auditor since 1996.
Salisbury, Maryland
March 25, 2021

**GLEN BURNIE BANCORP AND SUBSIDIARY**
**CONSOLIDATED BALANCE SHEETS**
**(dollars in thousands)**

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 2,111 | $ 2,117 |
| Interest-bearing deposits in other financial institutions | 60,070 | 34,976 |
| Cash and Cash Equivalents | 62,181 | 37,093 |
| Investment securities available for sale, at fair value | 155,927 | 114,049 |
| Restricted equity securities, at cost | 1,062 | 1,199 |
| Loans, net of deferred fees and costs | 210,392 | 253,772 |
| Less: Allowance for credit losses(1) | (2,470) | (1,476) |
| Loans, net | 207,922 | 252,296 |
| Real estate acquired through foreclosure | — | 575 |
| Premises and equipment, net | 3,564 | 3,853 |
| Bank owned life insurance | 8,338 | 8,181 |
| Deferred tax assets, net | 956 | 142 |
| Accrued interest receivable | 1,085 | 1,302 |
| Accrued taxes receivable | 301 | 116 |
| Prepaid expenses | 347 | 318 |
| Other assets | 383 | 362 |
| **Total Assets** | **$ 442,066** | **$ 419,486** |
| | | |
| **LIABILITIES** | | |
| Noninterest-bearing deposits | $ 155,624 | $ 132,626 |
| Interest-bearing deposits | 227,623 | 216,994 |
| Total Deposits | 383,247 | 349,620 |
| Short-term borrowings | 10,000 | 29,912 |
| Long-term borrowings | 10,000 | — |
| Defined pension liability | 304 | 285 |
| Accrued expenses and other liabilities | 2,799 | 2,576 |
| **Total Liabilities** | 406,350 | 382,393 |
| | | |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, par value $1, authorized 15,000,000 shares, issued and outstanding 2,853,880 and 2,842,040 shares as of December 31, 2021 and December 31, 2020, respectively. | 2,854 | 2,842 |
| Additional paid-in capital | 10,759 | 10,640 |
| Retained earnings | 22,977 | 23,071 |
| Accumulated other comprehensive (loss) gain | (874) | 540 |
| **Total Stockholders' Equity** | 35,716 | 37,093 |
| | | |
| **Total Liabilities and Stockholders' Equity** | **$ 442,066** | **$ 419,486** |

(1) Effective January 1, 2021, the Company applied ASU 2016-13, *Financial Instruments – Credit Losses (“ASC 326”)*, such that the allowance calculation is based on current expected credit loss methodology (“CECL”). Prior to January 1, 2021, the calculation was based on incurred loss methodology. See Note 4 “Loans and Allowance for Losses on Loans” for details.

*The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.*

**GLEN BURNIE BANCORP AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF INCOME**
**(dollars in thousands, except per share data)**

| | Year Ended December 31, 2021 | 2020 |
|---|---|---|
| **INTEREST INCOME** | | |
| Interest and fees on loans | $ 10,738 | $ 11,973 |
| Interest and dividends on securities | 2,657 | 1,579 |
| Interest on deposits with banks and federal funds sold | 122 | 117 |
| Total Interest Income | 13,517 | 13,669 |
| **INTEREST EXPENSE** | | |
| Interest on deposits | 609 | 1,043 |
| Interest on short-term borrowings | 465 | 464 |
| Interest on long-term borrowings | — | 8 |
| Total Interest Expense | 1,074 | 1,515 |
| Net Interest Income | 12,443 | 12,154 |
| Release of credit loss provision | (975) | (689) |
| Net interest income after provision for credit losses | 13,418 | 12,843 |
| **NONINTEREST INCOME** | | |
| Service charges on deposit accounts | 160 | 176 |
| Other fees and commissions | 884 | 672 |
| (Loss) gain on securities called or sold | (588) | 6 |
| Income on life insurance | 157 | 158 |
| Gain on sale of OREO | 14 | — |
| Total Noninterest Income | 627 | 1,012 |
| **NONINTEREST EXPENSE** | | |
| Salary and employee benefits | 6,504 | 6,743 |
| Occupancy and equipment expenses | 1,227 | 1,247 |
| Legal, accounting and other professional fees | 701 | 941 |
| Data processing and item processing services | 933 | 944 |
| FDIC insurance costs | 169 | 186 |
| Advertising and marketing related expenses | 88 | 88 |
| Loan collection costs | 12 | 126 |
| Telephone costs | 209 | 199 |
| Other expenses | 1,109 | 1,222 |
| Total Noninterest Expenses | 10,952 | 11,696 |
| Income before income taxes | 3,093 | 2,159 |
| Income tax expense | 577 | 491 |
| **NET INCOME** | **$ 2,516** | **$ 1,668** |
| Basic and diluted net income per share of common stock | $ 0.88 | $ 0.59 |

*The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.*

**GLEN BURNIE BANCORP AND SUBSIDIARY**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**
**(dollars in thousands)**

| | Year Ended December 31, 2021 | Year Ended December 31, 2020 |
|---|---|---|
| **Net income** | $ 2,516 | $ 1,668 |
| **Other comprehensive income (loss):** | | |
| Net unrealized gain (loss) on securities available for sale: | | |
| Net unrealized (loss) gain on securities during the period | (3,048) | 1,646 |
| Income tax benefit (expense) relating to item above | 840 | (452) |
| Reclassification adjustment for loss (gain) on sales of securities included in net income | 426 | (3) |
| Net effect on other comprehensive (loss) income | (1,782) | 1,191 |
| Net unrealized (loss) gain on interest rate swap: | | |
| Net unrealized gain (loss) on interest rate swap during the period | 508 | (611) |
| Income tax (expense) benefit relating to item above | (140) | 169 |
| Net effect on other comprehensive income (loss) | 368 | (442) |
| Other comprehensive (loss) income | (1,414) | 749 |
| **Comprehensive income** | **$ 1,102** | $ **2,417** |

*The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.*

## GLEN BURNIE BANCORP AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
### (dollars in thousands)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
|---|---|---|---|---|---|
| **Balances, December 31, 2019** | **$ 2,827** | **10,525** | **22,537** | **(209)** | **35,680** |
| Net income | — | — | 1,668 | — | 1,668 |
| Cash dividends, $0.40 per share | — | — | (1,134) | — | (1,134) |
| Dividends reinvested under dividend reinvestment plan | 15 | 115 | — | — | 130 |
| Other comprehensive income | — | — | — | 749 | 749 |
| **Balance, December 31, 2020** | 2,842 | 10,640 | 23,071 | 540 | 37,093 |
| Net income | — | — | 2,516 | — | 2,516 |
| Cash dividends, $0.40 per share | — | — | (1,138) | — | (1,138) |
| Dividends reinvested under dividend reinvestment plan | 12 | 119 | — | — | 131 |
| Transition adjustment pursuant to adoption of ASU 2016-3 | — | — | (1,472) | — | (1,472) |
| Other comprehensive income | — | — | — | (1,414) | (1,414) |
| **Balance, December 31, 2021** | **$ 2,854** | **$ 10,759** | **$ 22,977** | **$ (874)** | **$ 35,716** |

*The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.*

## GLEN BURNIE BANCORP AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (dollars in the thousands)

| | Year Ended December 31, 2021 | Year Ended December 31, 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 2,516 | $ 1,668 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization, and accretion of premises and equipment | 995 | 59 |
| Release of credit losses provision | (975) | (689) |
| Deferred income taxes, net | 282 | 245 |
| Gain on disposals of assets, net | (14) | — |
| Increase in cash surrender value of bank owned life insurance | (157) | (158) |
| Loss on sale of available-for-sale investments | 588 | — |
| Loss on writedown other real estate owned | — | 130 |
| Net (increase) decrease in other assets | (18) | 798 |
| Net decrease (increase) in accrued expenses and other liabilities | 439 | (451) |
| Net cash provided by operating activities | 3,656 | 1,602 |
| **Cash flows from investing activities:** | | |
| Redemptions, sales and maturities of investment securities available for sale | 57,380 | 26,323 |
| Purchases of investment securities available for sale | (102,870) | (66,941) |
| Net redemption of Federal Home Loan Bank stock | 137 | 238 |
| Net decrease in loans | 43,776 | 31,065 |
| Proceeds from sale of real estate acquired through foreclosure | 589 | — |
| Purchases of premises and equipment | (287) | (573) |
| Net cash used in investing activities | (1,275) | (9,888) |
| **Cash flows from financing activities:** | | |
| Net increase in deposits | 33,627 | 28,180 |
| (Decrease) increase in short term borrowings | (19,913) | 4,913 |
| Increase in long term borrowings | 10,000 | — |
| Cash dividends paid | (1,138) | (1,134) |
| Common stock dividends reinvested | 131 | 130 |
| Net cash provided by financing activities | 22,707 | 32,089 |
| **Net increase in cash and cash equivalents** | 25,088 | 23,803 |
| **Cash and cash equivalents at beginning of year** | 37,093 | 13,290 |
| **Cash and cash equivalents at end of year** | $ 62,181 | $ 37,093 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Interest paid on deposits and borrowings | $ 1,078 | $ 1,599 |
| Income taxes paid (refunded) | 480 | (856) |
| Net (decrease) increase in unrealized depreciation on available for sale securities | (3,048) | 1,646 |
| Decrease (increase) in unrealized depreciation on Swaps | 508 | (611) |

*The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statement.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

Nature of Business

Glen Burnie Bancorp (the "Company") is a bank holding company organized in 1990 under the laws of the State of Maryland. The Company owns all outstanding shares of capital stock of The Bank of Glen Burnie (the "Bank"), a commercial bank organized in 1949 under the laws of the State of Maryland (the "State"). The Bank provides financial services to individuals and corporate customers located in Anne Arundel County and surrounding areas of Central Maryland, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and State agencies and undergoes periodic examinations by those regulatory authorities. The accounting and financial reporting policies of the Bank conform, in all material respects, to accounting principles generally accepted in the United States ("U.S. GAAP") and to general practices within the banking industry.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 pandemic has negatively impacted the global economy and the markets in which the Company operates. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future country and state restrictions regarding virus containment. An extended period of global supply chain, workforce availability and economic disruption could materially affect the Company's business, the results of operations, and financial condition. While this business disruption is expected to be temporary, the current circumstances change from one day to the next and the impacts of COVID-19 on the Company's business operations, including the duration, its impact on assets, liabilities and net income, cannot be reasonably estimated at this time.

The Company has business continuity plans that cover a variety of potential impacts to business operations. These plans are periodically reviewed and tested and have been designed to protect the ongoing viability of bank operations in the event of a disruption such as a pandemic. The length of the pandemic and the effectiveness of the measures being put in place to address it are unknown. Until the effects of the pandemic subside, we face possible impacts on liquidity, operating revenues, and credit performance. To the extent the pandemic adversely affects our business, financial condition, liquidity, or results of operations, it may also have the effect of heightening many of the other risks described in this Annual Report.

Basis of Presentation

The consolidated financial statements include the accounts of Glen Burnie Bancorp, The Bank of Glen Burnie and GBB Properties, Inc., a company engaged in the acquisition and disposition of other real estate. All significant intercompany transactions are eliminated in consolidation and certain reclassifications are made when necessary in order to conform the previous year's financial statements to the current year's presentation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. These estimates that require application of management's subjective or complex judgments often result in the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Management has made significant estimates in several areas, including the valuation of certain loans held for investment (Note 4, *Loans and Allowance for Credit Losses*); allowance for credit losses (Note 4, *Loans and Allowance for Credit Losses*); valuation of investment securities (Note 3, *Investment Securities*); the fair value of financial instruments (Note 16, *Fair Value of Financial Instruments*); benefit plan obligations and expenses (Note 10, *Pension and Profit Sharing Plans*); and the valuation of deferred tax assets (Note 9, *Income Taxes*). Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation. The Parent Only financial statements (see Note 18, *Parent Company Financial Information*) of the Company account for the subsidiary using the equity method of accounting.

Investment Securities

We classify investment securities as trading, held to maturity ("HTM"), or available for sale ("AFS") at the date of acquisition. Purchases and sales of securities are generally recorded on a trade-date basis.

Investment securities that we might not hold until maturity are classified as AFS and are reported at fair value in the statement of financial condition. Fair value measurement is based upon quoted market prices in active markets, if available. If quoted prices in active markets are not available, fair value is measured using pricing models or other model-based valuation techniques such as the present value of future cash flows, which consider prepayment assumptions and other factors such as credit losses and market liquidity. Unrealized gains and losses are excluded from earnings and reported, net of tax, in other comprehensive income (“OCI”). Purchase premiums and discounts are recognized in interest income using the effective interest method over the life of the securities. Purchase premiums or discounts related to mortgage-backed securities are amortized or accreted using projected prepayment speeds. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Debt securities are classified as HTM if the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of purchase premiums and accretion of purchase discounts.

Transfers of securities from available for sale to held to maturity are accounted for at fair value as of the date of the transfer. The difference between the fair value and the par value at the date of transfer is considered a premium or discount and is accounted for accordingly. Any unrealized gain or loss at the date of the transfer is reported in OCI, and is amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount, and will offset or mitigate the effect on interest income of the amortization of the premium or discount for that held to maturity security.

Impairment may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of recoverability, all relevant information is considered, including the length of time and extent to which fair value has been less than the amortized cost basis, the cause of the price decline, credit performance of the issuer and underlying collateral, and recoveries or further declines in fair value subsequent to the balance sheet date.

AFS debt securities are measured at fair value rather than amortized cost. Although ASC 326 replaced the legacy other-than-temporary impairment (“OTTI”) model with a credit loss model, it retained the fundamental nature of the legacy OTTI model. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either criteria is met, the security’s amortized cost basis is written down to fair value through income. For AFS debt securities where neither of the criteria are met, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the credit rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any remaining discount that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Under the new guidance, an entity may no longer consider the length of time fair value has been less than amortized cost. Changes in the allowance for credit losses are recorded as a provision for (or release of) credit losses. Losses are charged against the allowance when management believes the collectability of an AFS security is considered below the amortized cost basis of the security. As of December 31, 2021 and 2020, the Company determined that the unrealized loss positions in AFS securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded.

Federal Home Loan Bank Stock

As a borrower from the Federal Home Loan Bank of Atlanta ("FHLB"), the Bank is required to purchase an amount of FHLB stock based on our outstanding borrowings with the FHLB. This stock is used as collateral to secure the borrowings from the FHLB and is accounted for as a cost-method investment. FHLB stock is an equity interest that does not necessarily have a readily determinable fair value for purposes of the ASC Topic 320, *Accounting for Certain*

*Investments in Debt and Equity Securities*, because its ownership is restricted and lacks a market. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLB or another member institution.

Other Securities

Maryland Financial Bank Dissolution Trust ("the Trust"), is a "liquidating trust" for U.S. federal income tax purposes. The sole purpose of the Trust is to liquidate the remaining assets, resolve the remaining liabilities, and to distribute the net proceeds to the Trust's beneficiaries. This is an equity interest that does not necessarily have a readily determinable fair value for purposes of the ASC Topic 320, *Accounting for Certain Investments in Debt and Equity Securities*, because its ownership is restricted and lacks a market. This stock is accounted for as a cost-method investment.

Loans Held for Investment

Loans held for investment are reported at the principal amount outstanding, net of cumulative charge-offs, interest applied to principal (for loans accounted for using the cost recovery method), unamortized net deferred loan origination fees and costs and unamortized premiums or discounts on purchased loans. Interest on loans is accrued and recognized as interest income at the contractual rate of interest. When a loan is designated as held for investment, the intent is to hold these loans for the foreseeable future or until maturity or pay off.

From time to time, the Company will originate loans to facilitate the sale of other real estate owned (OREO). Such loans are accounted for using the installment method and any gain on sale is deferred. The Bank financed no sales of OREO for 2021 or 2020.

Loan Fees and Costs

Loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan.

Nonaccrual Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal balance has been charged off. When a loan is placed on nonaccrual status all interest previously accrued but not collected is reversed against current period interest income.

All payments received on nonaccrual loans are accounted for using the cost recovery method. Under the cost recovery method, all cash collected is applied to first reduce the principal balance. A loan may be returned to accrual status if all delinquent principal and interest payments are brought current and the collectability of the remaining principal and interest payments in accordance with the loan agreement is reasonably assured. Loans that are well-secured and in the process of collection are maintained on accrual status, even if they are 90 days or more past due.

Impaired Loans

A loan is considered impaired when it is probable that all contractual principal and interest payments due will not be collected in accordance with the terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. The carrying value of impaired loans is based on the present value of the loan’s expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

Troubled Debt Restructurings

A loan is accounted for and reported as a troubled debt restructuring ("TDR") when, for economic or legal reasons, we grant a concession to a borrower experiencing financial difficulty that we would not otherwise consider. Management strives to identify borrowers in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. A restructuring that results in only an insignificant delay in payment is not considered a concession. A delay may be considered insignificant if the payments subject to the delay are insignificant relative to the unpaid principal or collateral value and the contractual amount due, or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the debt's original contractual maturity or original expected duration.

TDRs are designated as impaired because interest and principal payments will not be received in accordance with the original contract terms. TDRs that are performing and on accrual status as of the date of the modification remain on accrual status. TDRs that are nonperforming as of the date of modification generally remain as nonaccrual until the prospect of future payments in accordance with the modified loan agreement is reasonably assured, generally demonstrated when the borrower maintains compliance with the restructured terms for a predetermined period, normally at least six months. TDRs with temporary below-market concessions remain designated as a TDR and impaired regardless of the accrual or performance status until the loan is paid off. However, if the TDR loan has been modified in a subsequent restructure with market terms and the borrower is not currently experiencing financial difficulty, then the loan may be de-designated as a TDR.

Allowance for Credit Losses – Loans Receivable

Effective January 1, 2021, the Company applied ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"), such that the allowance calculation is based on the CECL methodology. Prior to January 1, 2021, the calculation was based on incurred loss methodology. See Note 4, *Loans and Allowance for Credit Losses* for details. The Company maintains an allowance for credit losses ("ACL") for the expected credit losses of the loan portfolio as well as unfunded loan commitments. The amount of ACL is based on ongoing, quarterly assessments by management. The CECL methodology requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures) and replaces the incurred loss methodology's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred.

The ACL consists of the allowance for credit losses - loans and the reserve for unfunded commitments. The estimate of expected credit losses under the CECL methodology is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. We then consider whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period that historical experience was based for each loan type. Finally, we consider forecasts about future economic conditions or changes in collateral values that are reasonable and supportable.

Portfolio segment is defined as the level at which the Company develops and documents a systematic methodology to determine its ACL. The Company has designated three loan portfolio segments: loans secured by real estate, commercial and industrial loans, and consumer loans. These loan portfolio segments are further disaggregated into classes, which represent loans of similar type, risk characteristics, and methods for monitoring and assessing credit risk. The loans secured by real estate portfolio segment is disaggregated into five classes: construction and land, farmland, family residential, multi-family, and commercial. The commercial and industrial loan portfolio segment is disaggregated into two classes: commercial and industrial, and SBA guaranty. The risk of loss for the commercial and industrial loan portfolio segment is generally most indicated by the credit risk rating assigned to each borrower. Commercial and industrial loan risk ratings are determined by experienced senior credit officers based on specific facts and circumstances and are subject to periodic review by an independent internal team of credit specialists. The consumer loan portfolio segment is disaggregated into two classes: consumer and automobile. The risk of loss for the consumer loan portfolio segment is generally most indicated by delinquency status and general economic factors. Each of the three loan portfolio segments may also be further segmented based on risk characteristics.

For most of our loan portfolio classes, the historical loss experience is determined using the Average Charge-Off Method. This method pools loans into groups ("cohorts") sharing similar risk characteristics and tracks each cohort's net charge-offs over the lives of the loans. The Average Charge-Off Method uses historical values by period (20-year look-back) to calculate losses and then applies the historical average to future balances over the life of the account. The historical loss rates for each cohort are then averaged to calculate an overall historical loss rate which is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance for credit losses for the respective loan portfolio class. For certain loan portfolio classes, the Company determined there was not sufficient historical loss information to calculate a meaningful historical loss rate using the average charge-off methodology. For any such loan portfolio class, peer group history contributes to the Company's weighted average loss history. The peer group data is included in the weighted average loss history that is developed for each loan pool.

The Company also considers qualitative adjustments to the historical loss rate for each loan portfolio class. The qualitative adjustments for each loan class consider the conditions over the 20-year look-back period from which historical loss experience was based and are split into two components: 1) asset or class specific risk characteristics or current conditions at the reporting date related to portfolio credit quality, remaining payments, volume and nature, credit culture and management, business environment or other management factors; and 2) reasonable and supportable forecast of future economic conditions and collateral values.

The Company performs a quarterly asset quality review which includes a review of forecasted gross charge-offs and recoveries, nonperforming assets, criticized loans, risk rating migration, delinquencies, etc. The asset quality review is performed by management and the results are used to consider a qualitative overlay to the quantitative baseline.

When management deems it to be appropriate, the Company establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans included in each respective loan pool. These individually evaluated loans are removed from their respective pools and typically represent collateral dependent loans but may also include other non-performing loans or troubled debt restructurings ("TDRs").

*Impaired Loans*

The specific credit allocations are based on regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. When a loan is identified as impaired, impairment is measured based on net realizable value, and the recorded investment balance of the loan. For impaired loans, we recognize impairment if we determine that the net realizable value of the impaired loan is less than the recorded investment of the loan (net of previous charge-offs and deferred loan fees and costs), except when the sole remaining source of collection is the underlying collateral. In these cases, impairment is measured as the difference between the recorded investment balance of the loan and the fair value of the collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral.

Once the impairment amount is determined, an asset-specific allowance is provided that is equal to the calculated impairment and included in the allowance for credit losses - loans. If the calculated impairment is determined to be permanent or not recoverable, the impairment will be charged off. Factors considered by management in determining if impairment is permanent or not recoverable include whether management judges the loan to be uncollectible, repayment is deemed to be protracted beyond reasonable time frames or the loss becomes evident owing to the borrower's lack of assets.

*Estimate of Probable Credit Losses - Loans*

On January 1, 2021, the Company early adopted ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326") which replaces the "incurred loss approach" for estimating credit losses with an expected loss methodology. The incurred loss model delayed the recognition of credit losses until it was probable that a loss had occurred, while the CECL model requires the immediate recognition of expected credit losses over the contractual term for financial instruments that fall within the scope of CECL at the date of origination or purchase of the financial instrument. The CECL model, which is applicable to the measurement of credit losses on financial assets measured at amortized cost and certain off-balance sheet credit exposures, affects the Company's estimates of the allowance for credit losses for our loan portfolio and the reserve for our off-balance sheet credit exposures related to loan commitments. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. The allowance, based on all available information from internal and external sources, relevant to assessing the collectability of loans over their contractual terms, adjusted for expected prepayments when appropriate, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations are performed for each class of loans and take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral securing the loans and current economic conditions and trends that may affect the borrowers' ability to pay. For example, delinquencies in unsecured loans and indirect automobile installment loans will be reserved for at significantly higher ratios than loans secured by real estate. Finally, the Company considers forecasts about future economic conditions or changes in collateral values that are reasonable and supportable. Based on that analysis, the Bank deems its allowance for credit losses in proportion to the total nonaccrual loans and past due loans to be sufficient.

Reserve for Unfunded Commitments

The Company maintains a separate allowance for losses on unfunded loan commitments, which is included in accrued expenses and other liabilities on the consolidated statements of financial condition. The reserve for unfunded commitments (off-balance sheet financial instruments) is established through a provision for credit losses - unfunded commitments, the changes of which are recorded in noninterest expense. The reserve for unfunded commitments is an amount that management believes will be adequate to absorb probable losses inherent in existing commitments, including unused portions of revolving lines of credit and other loans, standby letters of credit, and unused deposit account overdraft privileges. The reserve for unfunded commitments is based on evaluations of the collectability, and prior loss experience of unfunded commitments. The evaluations take into consideration such factors as changes in the nature and size of the loan portfolio, overall loan portfolio quality, loan concentrations, specific problem loans and related unfunded commitments, and current economic conditions that may affect the borrower's or depositor's ability to pay.

Other Real Estate Owned

Other real estate owned ("OREO") represents real estate acquired in partial or total satisfaction of debts previously contracted with the Company, generally through the foreclosure of loans. These properties are initially recorded at the net realizable value (fair value of collateral less estimated costs to sell). Upon transfer of a loan to OREO, an appraisal is obtained and any excess of the loan balance over the net realizable value is charged against the allowance for credit losses - loans. Subsequent declines in net realizable value identified from the ongoing analysis of such properties as well as gains and losses realized from the sale of OREO are recognized in current period earnings within noninterest expense as foreclosed property expense. The net realizable value of these assets is reviewed and updated as circumstances warrant. Loans transferred to OREO through foreclosure proceedings totaled $575,000 for the year ended December 31, 2020. There were no loans transferred to OREO for the year ended December 31, 2021.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and depreciated over the estimated useful life of the related asset or the term of the lease using the straight-line method. Expenditures for improvements that extend the life of an asset are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of premises and equipment are reflected in the consolidated statements of income. Expenditures for repairs and maintenance are charged to occupancy and equipment expense as incurred. Computer software is recorded at cost and amortized over three to five years. Management periodically evaluates the carrying value of long-lived assets and certain identifiable intangibles, including goodwill, furniture and equipment and leasehold improvements for impairment.

Income Taxes

Our income tax expense, and deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes and are reflected as discrete tax items in the Company's tax provision.

The Company records net deferred tax assets to the extent it is believed that these assets will more likely than not be realized. In making this determination, the Company considers all available evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent financial operations. 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% likelihood of being realized upon settlement with a taxing authority.

The Company files a consolidated federal income tax return and separate company state tax returns.

For a more detailed description of income taxes see Note 8, *Income Taxes* of the Notes to Consolidated Financial Statements.

Interest Rate Swap Agreements

For asset/liability management purposes, the Company periodically uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. All interest rate swap agreements are recorded at fair value. The Company records cash flow hedges at the inception of the derivative contract based on the Company's intentions and belief as to its likelihood of effectiveness as a hedge. Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Fair Value Measurement

The term "fair value" is defined as 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The Company’s approach is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. The degree of management judgment involved in estimating the fair value of a financial instrument or other asset is dependent upon the availability of quoted market prices or observable market value inputs for internal valuation models used for estimating fair value. For financial instruments that are actively traded in the marketplace or whose values are based on readily available market data, little judgment is necessary when estimating the instrument’s fair value. When observable market prices and data are not readily available, significant management judgment often is necessary to estimate fair value. In those cases, different assumptions could result in significant changes in valuation. See Note 16, *Fair Value Measurement.*

Cash and Cash Equivalents

The Bank has included cash and due from banks, interest-bearing deposits in other financial institutions, and federal funds sold as cash and cash equivalents for the purpose of reporting cash flows. The carrying value of cash and cash equivalents approximates its fair value due to its short-term nature.

Earnings Per Share

Basic earnings per common share (“EPS”) is computed by dividing net income available to common shareholders by the weighted average common shares outstanding during the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average common shares outstanding, plus the effect of common stock equivalents (for example, stock options computed using the treasury stock method).

Advertising Expense

Advertising costs, which we consider to be media and marketing materials, are expensed as incurred. We incurred $0.1 million in advertising expense during the years ended December 31, 2021 and 2020.

Bank Owned Life Insurance

The Company has purchased bank owned life insurance policies on certain current and former employees as a means to generate tax-exempt income which is used to offset a portion of current and future employee benefit costs. Bank owned life insurance is recorded at the cash surrender value of the policies. Changes in the cash surrender value are included in noninterest income.

Other Comprehensive Income (Loss)

Other comprehensive income includes unrealized gains and losses, net of tax, on AFS securities and derivative instruments. Unrealized gains and losses, net of tax, are excluded from net income, and are reflected as a direct charge or credit to shareholders’ equity. Comprehensive income (loss) and the related components are disclosed in the consolidated statements of comprehensive income.

Recent Accounting Pronouncements and Developments

ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326)" ("ASU 2016-13") requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans, and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. ASU 2016-13, as updated, was adopted on January 1, 2021. Through the date of adoption, we held working group meetings that included individuals from various functional areas relevant to the implementation of CECL. Additionally, an assessment of our primary modeling tool was completed, which enabled us to complete parallel runs utilizing second and third quarter 2020 data, during which preliminary operational procedures and internal controls were designed. Management's working group also validated the appropriateness of, among other things, management's decisions regarding portfolio segmentation, life of loan considerations, and reasonable and supportable forecasting methodology. The Company early adopted ASC 326 during the first quarter 2021 and based on the application of the modified retrospective method, it became effective on January 1, 2021 for all financial assets measured at amortized cost (primarily loans receivable) and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2021 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a decrease to retained earnings of $1,472,000 as of January 1, 2021 for the cumulative effect of adopting ASC 326 as further detailed below.

| (dollars in thousands) | December 31, 2020 | CECL Adoption Impact | January 1, 2021 |
|---|---|---|---|
| **Allowance for credit losses:** | | | |
| **Loans Secured by Real Estate** | | | |
| Construction and land | $ 10 | $ 16 | $ 26 |
| Farmland | 2 | 9 | 11 |
| Single-family residential | 512 | 854 | 1,366 |
| Multi-family | 39 | 63 | 102 |
| Commercial | 218 | 199 | 417 |
| Total loans secured by real estate | 781 | 1,141 | 1,922 |
| **Commercial and Industrial** | | | |
| Commercial and industrial | 67 | 120 | 187 |
| SBA guaranty | 48 | (6) | 42 |
| Total commercial and industrial loans | 115 | 114 | 229 |
| **Consumer Loans** | | | |
| Consumer | 11 | 46 | 57 |
| Automobile | 569 | 273 | 842 |
| Total consumer loans | 580 | 319 | 899 |
| **Total allowance for loan losses** | 1,476 | 1,574 | 3,050 |
| Reserve for unfunded commitments | 33 | 457 | 490 |
| **Total allowance for credit losses** | $ 1,509 | $ 2,031 | $ 3,540 |
| | | | |
| **Retained earnings** | | | |
| Total pre-tax impact | | $ 2,031 | |
| Tax effect | | (559) | |
| **Decrease to retained earnings** | | $ 1,472 | |

ASU 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)." The ASU was issued in December 2019. The amendments in this update are meant to simplify the accounting for income taxes by removing certain exceptions to GAAP. The amendments also improve consistent application of and simplify GAAP by modifying and/or revising the accounting for certain income tax transactions and by clarifying certain existing codification. The amendments in the update are effective for public business entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2020. The adoption of this guidance did not have a material impact upon the Company's financial position and results of operations.

ASU 2020-01, “Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815 (a Consensus of the Emerging Issues Task Force).” The ASU clarifies the interaction between ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and the ASU on equity method investments. ASU 2016-01 provides companies with an alternative to measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs. ASU 2020-01 clarifies that for purposes of applying the Topic 321 measurement alternative, an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting under Topic 323, immediately before applying or upon discontinuing the equity method. In addition, the new ASU provides direction that a company should not consider whether the underlying securities would be accounted for under the equity method or the fair value option when it is determining the accounting for certain forward contracts and purchased options, upon either settlement or exercise. The amendments in this update become effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, and the amendments are to be applied prospectively. There was no material impact from adopting the new guidance on the Company’s consolidated financial statements.

ASU No. 2020-04, “Reference Rate Reform (Topic 848).” The ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update are effective for all entities as of March 12, 2020 through December 31, 2022. There was no material impact from adopting the new guidance on the Company’s consolidated financial statements.

ASU No. 2020-08, “Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs.” The amendments in this update clarify that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. The amendments in this update are effective beginning after December 15, 2020. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

ASU No. 2020-10, “Codification Improvements.” The ASU improves reporting consistency by amending the Codification to include all disclosure guidance in the appropriate disclosure sections. It clarifies the application of various provisions in the Codification by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. The amendments are effective for annual periods beginning after December 15, 2020, and early application is permitted. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

ASU No. 2021-01, “Reference Rate Reform (Topic 848): Scope.” The ASU clarifies that all derivative instruments affected by changes to the interest rates used for discounting, margining, or contract price alignment due to reference rate reform are in the scope of ASC 848. Entities may apply certain optional expedients in ASC 848 to derivative instruments that do not reference LIBOR or another rate expected to be discontinued as a result of reference rate reform if there is a change to the interest rate used for discounting, margining or contract price alignment. The ASU also clarifies other aspects of ASC 848 and provides new guidance on how to address the effects of the cash compensation adjustment that is provided as part of the above change on certain aspects of hedge accounting. The ASU is intended to reduce diversity in practice related to accounting for (1) modifications to the terms of affected derivatives; and (2) existing hedging relationships in which the affected derivatives are designated as hedging instruments. ASU 2021-01 is effective upon issuance and generally can be applied through December 31, 2022. Entities may elect to apply the guidance on contract modifications either (1) retrospectively as of any date from the beginning of any interim period that includes March 12, 2020; or (2) prospectively to new modifications from any date in an interim period that includes or is after January 7, 2021, up to the date that financial statements are available to be issued. There was no material impact from adopting the new guidance on the Company’s consolidated financial statements.

**Note 2. Restrictions on Cash and Amounts Due from Banks**

On March 26, 2020 the Board of Governors of the Federal Reserve System set the reserve requirement ratios to zero percent and reserve requirements were no longer administered. On December 22, 2020 the zero percent reserve requirement ratio was extended for three years. At December 31, 2021 and 2020, the average reserve balances were $0 and $0.4 million, respectively.

**Note 3. Investment Securities**

A summary of the amortized cost and market value of securities available for sale at December 31, 2021 and 2020 is as follows:

| | At December 31, 2021 | | | |
|---|---|---|---|---|
| (dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Collaterized mortgage obligations | $ 21,730 | $ 169 | $ (211) | $ 21,688 |
| Agency mortgage-backed securities | 56,252 | 356 | (419) | 56,189 |
| Municipal securities | 44,594 | 811 | (180) | 45,225 |
| U.S. Government agency securities | 32,616 | 4 | (1,269) | 31,351 |
| Corporate securities | 1,500 | — | (26) | 1,474 |
| **Total securities available for sale** | $ 156,692 | $ 1,340 | $ (2,105) | $ 155,927 |

| | At December 31, 2020 | | | |
|---|---|---|---|---|
| (dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Collaterized mortgage obligations | $ 24,261 | $ 396 | $ (14) | $ 24,643 |
| Agency mortgage-backed securities | 26,072 | 886 | (10) | 26,948 |
| Municipal securities | 28,675 | 740 | (2) | 29,413 |
| U.S. Government agency securities | 33,346 | 9 | (310) | 33,045 |
| **Total securities available for sale** | $ 112,354 | $ 2,031 | $ (336) | $ 114,049 |

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Company held no trading securities at December 31, 2021 or December 31, 2020. Available-for-sale investment securities, comprised of debt and mortgage-backed securities, are those that may be sold before maturity due to changes in the Company's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income or loss. Held-to-maturity investment securities are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost. The Company held no held-to-maturity securities at December 31, 2021 or December 31, 2020.

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual securities.

The following tables show the fair value and gross unrealized losses associated with the investment portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2021 and 2020:

| | At December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| **(dollars in thousands)** | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Collaterized mortgage obligations | $ 7,917 | $ (194) | $ 876 | $ (17) | $ 8,793 | $ (211) |
| Agency mortgage-backed securities | 42,109 | (414) | 197 | (5) | 42,306 | (419) |
| Municipal securities | 18,603 | (180) | — | — | 18,603 | (180) |
| U.S. Government agency securities | 13,976 | (420) | 15,942 | (849) | 29,918 | (1,269) |
| Corporate securities | 1,474 | (26) | — | — | 1,474 | (26) |
| | $ 84,079 | $ (1,234) | $ 17,015 | $ (871) | $ 101,094 | $ (2,105) |

| | At December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| **(dollars in thousands)** | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Collaterized mortgage obligations | $ 201 | $ — | $ 1,188 | $ (14) | $ 1,389 | $ (14) |
| Agency mortgage-backed securities | — | — | 566 | (10) | 566 | (10) |
| Municipal securities | 851 | (2) | — | — | 851 | (2) |
| U.S. Government agency securities | 24,160 | (308) | 481 | (2) | 24,641 | (310) |
| | $ 25,212 | $ (310) | $ 2,235 | $ (26) | $ 27,447 | $ (336) |

At December 31, 2021 and 2020, the Company did not have any securities that had impairment charges.

The Company's investment securities portfolio consists primarily of debt securities issued by U.S. Government agencies, U.S. Government-sponsored agencies, Corporate securities, state governments and local municipalities. There were no private label mortgage-backed securities ("MBS") or collateralized mortgage obligations ("CMO") held in the investment securities portfolio as of December 31, 2021 and December 31, 2020.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the available for sale portfolio are included in shareholders' equity as a component of accumulated other comprehensive income or loss, net of tax. An unrealized loss exists when the current fair value of an individual security is less than the amortized cost basis.

The Company does not believe that the available-for-sale debt securities that were in an unrealized loss position have any credit loss impairment upon adoption of ASC 326 on January 1, 2021 or as of December 31, 2021. As of December 31, 2021, the Company did not intend to sell the investment securities that were in an unrealized loss position. It is more likely than not that the Company will not be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity. Available-for-sale debt securities issued by U.S. government agencies or U.S. government sponsored enterprises carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Municipal bonds are considered to have issuer(s) of high credit quality (rated A or higher) and the decline in fair value is due to changes in interest rates and other market conditions. Corporate securities are non-rated investments that are booked as a debt security where rating agencies do not provide a rating. The absence of a rating does not imply substandard quality. Non-rated corporate securities may be purchased from issuers operating in and around the Company’s operating footprint. The issuer(s) continues to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bond(s) approach maturity.

The Company held fifty-two U.S. Government agency, twenty-five collateralized mortgage obligations, one corporate security, and twenty-nine agency mortgage-backed securities that were in an unrealized loss position at December 31, 2021. Principal and interest payments of the underlying collateral for each of these securities are backed by U.S. Government sponsored agencies and carry minimal credit risk. Management found no evidence of credit loss impairment on any of these securities and believes the unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary as of December 31, 2021.

All municipal securities held in the investment portfolio are reviewed on at least a quarterly basis for credit loss impairment. Each bond carries an investment grade rating by either Moody's or Standard & Poor's. In addition, the Company periodically conducts its own independent review on each issuer to ensure the financial stability of the municipal entity. The largest geographic concentration was in Maryland and consisted of either general obligation or revenue bonds backed by the taxing power of the issuing municipality. At December 31, 2021, the investment portfolio included nine municipal securities that were in an unrealized loss position. Management believes the unrealized losses were the result of movements in long-term interest rates and are not reflective of any credit deterioration.

At December 31, 2021 and 2020, investment securities in the amount of approximately $1.2 million and $0.9 million, respectively were pledged as collateral for interest rate swap contracts.

Unrealized losses on securities in the investment portfolio amounted to $2.1 million with a total fair value of $101.1 million as of December 31, 2021 compared to unrealized losses of $0.3 million with a total fair value of $27.4 million as of December 31, 2020. The Company believes the unrealized losses presented in the tables above are temporary in nature and primarily related to market interest rates or limited trading activity in a particular type of security rather than the underlying credit quality of the issuers. The Company does not believe that these losses are other than temporary and does not currently intend to sell or believe it will be required to sell securities in an unrealized loss position prior to maturity or recovery of the amortized cost bases.

In 2018, the Board of Directors at Maryland Financial Bank ("MFB") determined that it was advisable and in the best interests of stockholders to undertake the liquidation and dissolution of MFB. In 2018, the Bank recognized an impairment loss of $25,000 on the 5,000 shares of MFB stock that it owned. On July 16, 2019, all remaining assets and liabilities of MFB were transferred to the MFB Dissolution Trust (the "Trust"). The purpose of the Trust is to liquidate the remaining assets, resolve the remaining liabilities, and to distribute the net proceeds. The Trust is intended to be a "liquidating trust" for U.S. federal income tax purposes. At December 31, 2019, the Trust was unable to complete all its activities and make cash liquidating distributions to its stockholders due to the bankruptcy of a borrower that has a commercial real estate loan. In 2019, the Bank reduced its investment in the Trust to the projected value of $0.53 per share and decreased the value of its Trust units from $5,000 to $2,650, a $2,350 decrease in value.

The following table presents investment securities by stated maturity at December 31, 2021. Collateralized mortgage obligations and agency mortgage-backed securities have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties and, therefore, these securities are classified separately with no specific maturity date.

| | At December 31, 2021 | |
|---|---|---|
| **(dollars in thousands)** | **Amortized Cost** | **Fair Value** |
| Due within one year | $ — | $ — |
| Due over one to five years | 3,448 | 3,507 |
| Due over five to ten years | 11,015 | 10,902 |
| Due over ten years | 62,747 | 62,167 |
| Collaterized mortgage obligations | 23,230 | 23,162 |
| Agency mortgage-backed securities | 56,252 | 56,189 |
| **Total securities available for sale** | $ 156,692 | $ 155,927 |

Proceeds from sales of available for sale securities prior to maturity totaled $32.7 million for the year ended December 31, 2021. No investment securities were sold in 2020. The Bank realized net losses of $588,000 and net gains of $6,000 for the years ended December 31, 2021 and 2020, respectively. Realized gains and losses were calculated based on the amortized cost of the securities at the date of trade.

**Note 4. Loans and Allowance for Credit Losses - Loans**

The following table sets forth the Company's gross loans by major categories as of December 31, 2021 and 2020:

| | December 31, | |
|---|---|---|
| **(dollars in thousands)** | **2021** | **2020** |
| **Loans Secured by Real Estate** | | |
| Construction and land | $ 4,087 | $ 2,553 |
| Farmland | 342 | 350 |
| Singlefamily residential | 78,119 | 82,520 |
| Multifamily | 5,428 | 6,105 |
| Commercial | 48,729 | 57,027 |
| Total loans secured by real estate | 136,705 | 148,555 |
| **Commercial and Industrial** | | |
| Commercial and industrial | 10,003 | 10,800 |
| SBA guaranty | 6,397 | 7,200 |
| Comm SBA PPP | 1,047 | 9,912 |
| Total commercial and industrial loans | 17,447 | 27,912 |
| **Consumer Loans** | | |
| Consumer | 2,090 | 3,063 |
| Automobile | 54,150 | 74,242 |
| Total consumer loans | 56,240 | 77,305 |
| | | |
| Loans, net of deferred fees and costs | 210,392 | 253,772 |
| Less: Allowance for credit losses | (2,470) | (1,476) |
| Loans, net | $ 207,922 | $ 252,296 |

The Company currently manages its credit products and the respective exposure to credit losses by specific portfolio segments and classes, which are levels at which the Company develops and documents its systematic methodology to determine the allowance for credit losses. The Company believes each portfolio segment has unique risk characteristics. The Company's loans held for investment is divided into three portfolio segments: loans secured by real estate, commercial and industrial loans, and consumer loans. Each of these segments is further divided into loan classes for purposes of estimating the allowance for credit losses. The Bank's indirect loan group included $54.2 million and $74.2 million of such loans at December 31, 2021 and 2020, respectively. The Commercial Small Business Administration (SBA) Paycheck Protection Program (PPP) loan balance was $1.0 million and $10.0 million at December 31, 2021 and 2020, respectively. This loan type is discussed in "Note 1. *Nature of Business*."

The Bank makes loans to customers located primarily in Anne Arundel County and surrounding areas of Central Maryland. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Included in loans are loans due from directors, executive officers and other related parties of $0 at December 31, 2021, and $0.3 million at December 31, 2020. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. The Board of Directors approves loans to directors, executive officers and other related parties to confirm that collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies. The following presents the activity in amount due from directors and other related parties for the years ended December 31, 2021 and 2020.

| (dollars in thousands) | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Balance at beginning of year | $ 276 | $ 371 |
| Additions | 90 | 368 |
| Repayments | (366) | (463) |
| Balance at end of year | $ — | $ 276 |

**Allowance for Credit Losses**

Credit Risk and Allowance for Credit Losses - Loans. Credit risk is the risk of loss arising from the inability of a borrower to meet his or her obligations and entails both general risks, which are inherent in the process of lending, and risks specific to individual borrowers. Credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry, or collateral type. Residential mortgage and home equity loans and lines generally have the lowest credit loss experience. Loans secured by personal property, such as auto loans, generally experience medium credit losses. Unsecured loan products, such as personal revolving credit, have the highest credit loss experience and for that reason, the Bank has chosen not to engage in a significant amount of this type of lending. Credit risk in commercial lending can vary significantly, as losses as a percentage of outstanding loans can shift widely during economic cycles and are particularly sensitive to changing economic conditions. Generally, improving economic conditions result in improved operating results on the part of commercial customers, enhancing their ability to meet their particular debt service requirements. Improvements, if any, in operating cash flows can be offset by the impact of rising interest rates that may occur during improved economic times. Inconsistent economic conditions may have an adverse effect on the operating results of commercial customers, reducing their ability to meet debt service obligations.

On January 1, 2021, the Company early adopted ASU 2016-13, Financial Instruments - Credit Losses (“ASC 326”) which replaces the “incurred loss approach” for estimating credit losses with an expected loss methodology. The incurred loss model delayed the recognition of credit losses until it was probable that a loss had occurred, while the CECL model requires the immediate recognition of expected credit losses over the contractual term for financial instruments that fall within the scope of CECL at the date of origination or purchase of the financial instrument. The CECL model, which is applicable to the measurement of credit losses on financial assets measured at amortized cost and certain off-balance sheet credit exposures, affects the Company’s estimates of the allowance for credit losses for our loan portfolio and the reserve for our off-balance sheet credit exposures related to loan commitments. The allowance for credit losses - loans is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses - loans when management believes that the collectability of the principal is unlikely. The allowance, based on all available information from internal and external sources, relevant to assessing the collectability of loans over their contractual terms, adjusted for expected prepayments when appropriate, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations are performed for each class of loans and take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral securing the loans and current economic conditions and trends that may affect the borrowers’ ability to pay. For example, delinquencies in unsecured loans and indirect automobile installment loans will be reserved for at significantly higher ratios than loans secured by real estate. Finally, the Company considers forecasts about future economic conditions or changes in collateral values that are reasonable and supportable. Based on that analysis, the Bank deems its allowance for credit losses - loans in proportion to the total nonaccrual loans and past due loans to be sufficient.

As a result of the adoption of ASC 326 in the first quarter of 2021, with an effective date of January 1, 2021, there is a lack of comparability in both the allowance and provisions for credit losses for the periods presented. Results for reporting periods beginning after January 1, 2021 are presented using the CECL methodology, while comparative period information continues to be reported in accordance with the incurred loss methodology in effect for prior years.

The following table presents the total allowance by loan segment:

| December 31, 2021 (dollars in thousands) | Loans Secured By Real Estate | | | | | Commercial and Industrial Loans | | | Consumer Loans | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Construction and Land | Farmland | Single-family Residential | Multi-family | Commercial | Commercial and Industrial | SBA Guaranty | Commercial SBA PPP | Consumer | Automobile | Total |
| Balance, beginning of year | $ 9 | $ 2 | $ 513 | $ 39 | $ 218 | $ 67 | $ 48 | $ — | $ 11 | $ 569 | $ 1,476 |
| Impact of ASC 326 adoption | 16 | 9 | 854 | 63 | 199 | 120 | (6) | — | 46 | 273 | 1,574 |
| Charge-offs | — | — | — | — | — | — | — | — | (2) | (251) | (253) |
| Recoveries | — | — | 408 | — | — | — | — | — | — | 240 | 648 |
| Release for credit losses | (20) | — | (418) | 3 | (139) | (72) | (12) | — | (19) | (298) | (975) |
| Balance, end of year | $ 5 | $ 11 | $ 1,357 | $ 105 | $ 278 | $ 115 | $ 30 | $ — | $ 36 | $ 533 | $ 2,470 |
| Individually evaluated for impairment: | | | | | | | | | | | |
| Balance in allowance | $ — | $ — | $ 10 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 10 |
| Related loan balance | — | — | 36 | — | — | — | — | — | — | — | 36 |
| Collectively evaluated for impairment: | | | | | | | | | | | |
| Balance in allowance | $ 5 | $ 11 | $ 1,347 | $ 105 | $ 278 | $ 115 | $ 30 | $ — | $ 36 | $ 533 | $ 2,460 |
| Related loan balance | 4,087 | 342 | 78,083 | 5,428 | 48,729 | 10,003 | 6,397 | 1,047 | 2,090 | 54,150 | 210,356 |

| December 31, 2020 (dollars in thousands) | Loans Secured By Real Estate | | | | | Commercial and Industrial Loans | | | Consumer Loans | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Construction and Land | Farmland | Single-family Residential | Multi-family | Commercial | Commercial and Industrial | SBA Guaranty | Commercial SBA PPP | Consumer | Automobile | Total |
| Balance, beginning of year | $ 24 | $ 2 | $ 849 | $ 40 | $ 241 | $ 69 | $ 25 | $ — | $ 11 | $ 805 | $ 2,066 |
| Charge-offs | — | — | — | — | — | — | — | — | — | (392) | (392) |
| Recoveries | — | — | 266 | — | — | 20 | — | — | 6 | 199 | 491 |
| Release for credit losses | (15) | — | (602) | (1) | (23) | (22) | 23 | — | (6) | (43) | (689) |
| Balance, end of year | $ 9 | $ 2 | $ 513 | $ 39 | $ 218 | $ 67 | $ 48 | $ — | $ 11 | $ 569 | $ 1,476 |
| Individually evaluated for impairment: | | | | | | | | | | | |
| Balance in allowance | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 11 | $ — | $ 11 |
| Related loan balance | — | — | 132 | — | — | 4,493 | — | — | 39 | — | 4,664 |
| Collectively evaluated for impairment: | | | | | | | | | | | |
| Balance in allowance | $ 9 | $ 2 | $ 513 | $ 39 | $ 218 | $ 67 | $ 48 | $ — | $ — | $ 569 | $ 1,465 |
| Related loan balance | 2,553 | 350 | 82,388 | 6,105 | 57,027 | 6,307 | 7,200 | 9,912 | 3,024 | 74,242 | 249,108 |

Management believes the allowance for credit losses is at an appropriate level to absorb inherent probable losses in the portfolio.

The following table rolls forward the Company’s activity for nonaccrual loans during the years 2021 and 2020:

| | Loans Secured By Real Estate | | | Commercial and Industrial Loans | Consumer Loans | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Single-family Residential | Multi-family | Commercial | SBA Guaranty | Consumer | Automobile | Total |
| **December 31, 2019** | **$ 790** | **$ 24** | **$ 3,139** | **$ —** | **$ 51** | **$ 123** | **$ 4,127** |
| Transfers into nonaccrual | 64 | — | 1,619 | — | — | 551 | 2,234 |
| Loans paid down/payoffs | (584) | (24) | (152) | — | (17) | (103) | (880) |
| Loans returned to accrual status | — | — | (577) | — | — | (17) | (594) |
| Loans charged off | — | — | — | — | — | (375) | (375) |
| | | | | | | | |
| **December 31, 2020** | **$ 270** | **$ —** | **$ 4,029** | **$ —** | **$ 34** | **$ 179** | **$ 4,512** |
| Transfers into nonaccrual | | | 920 | 71 | 1 | 291 | 1,283 |
| Loans paid down/payoffs | (147) | $ — | (3,987) | $ — | (1) | (83) | (4,218) |
| Loans returned to accrual status | — | — | (962) | — | (34) | — | (996) |
| Loans charged off | — | — | — | — | — | (243) | (243) |
| | | | | | | | |
| **December 31, 2021** | **$ 123** | **$ —** | **$ —** | **$ 71** | **$ —** | **$ 144** | **$ 338** |

**Credit Quality Information**

In addition to monitoring the performance status of the loan portfolio, the Company utilizes a risk rating scale (1-8) to evaluate loan asset quality for all loans. Loans that are rated 1-4 are classified as “pass” credits. For the pass rated loans, management believes there is a low risk of loss related to these loans and as necessary, credit may be strengthened through improved borrower performance and/or additional collateral. Loans rated a 5 (Special Mention) are pass credits, but are loans that have been identified that warrant additional attention and monitoring and represent “criticized” assets. Loans rated a 6 (Substandard) or higher are considered “criticized” loans and represent an increased level of credit risk. The use and application of these risk ratings by the Bank conform to the Bank's policy and regulatory definitions.

The Bank’s internal risk ratings are as follows:

1 – 4 (Pass) - Pass credits are loans in grades “superior” through “acceptable”. These are at least considered to be credits with acceptable risks and would be granted in the normal course of lending operations.

5 (Special Mention) - Special mention credits have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credits or in the Bank’s credit position at some future date. If weaknesses cannot be identified, classifying as special mention is not appropriate. Special mention credits are not adversely classified and do not expose the Bank to sufficient risk to warrant an adverse classification. No apparent loss of principal or interest is expected.

6 (Substandard) - Substandard credits are inadequately protected by the current worth and paying capacity of the obligor or by the collateral pledged. Financial statements normally reveal some or all of the following: poor trends, lack of earnings and cash flow, excessive debt, lack of liquidity, and the absence of creditor protection. Credits so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

7 (Doubtful) - A doubtful credit has all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and

refinancing plans. Doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded Substandard.

In the normal course of loan portfolio management, loan originators are responsible for continuous assessment of credit risk arising from the individual borrowers within their portfolio and assigning appropriate risk ratings. Credit Administration is responsible for ensuring the integrity and operation of the risk rating system and maintenance of the watch list. The Bank contracts with an independent 3rd party loan review firm that reviews and validates the internal credit risk program on an annual basis. Results of these reviews are presented to the Audit Committee for approval and then to management for implementation. The loan review process compliments and reinforces the risk identification and assessment decisions made by the lenders and credit personnel as well as the Bank's policies and procedures.

The following table provides information with respect to the Company's risk ratings by loan portfolio segment:

| | Loans Secured By Real Estate | | | | | Commercial and Industrial Loans | | | Consumer Loans | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2021 (dollars in thousands)** | **Construction and Land** | **Farmland** | **Single-family Residential** | **Multi-family** | **Commercial** | **Commercial and Industrial** | **SBA Guaranty** | **Commercial SBA PPP** | **Consumer** | **Automobile** | **Total** |
| Pass | $ 4,072 | $ 342 | $ 77,996 | $ 5,428 | $ 45,307 | $ 10,003 | $ 6,326 | $ 1,047 | $ 2,084 | $ 54,006 | $ 206,611 |
| Special mention | 15 | — | — | — | 3,422 | — | — | — | 6 | 4 | 3,447 |
| Substandard | — | — | 123 | — | — | — | 71 | — | — | 50 | 244 |
| Doubtful | — | — | — | — | — | — | — | — | — | 90 | 90 |
| Loss | — | — | — | — | — | — | — | — | — | — | — |
| | $ 4,087 | $ 342 | $ 78,119 | $ 5,428 | $ 48,729 | $ 10,003 | $ 6,397 | $ 1,047 | $ 2,090 | $ 54,150 | $ 210,392 |
| Nonaccrual | $ — | $ — | $ 123 | $ — | $ — | $ — | $ 71 | $ — | $ — | $ 144 | $ 338 |
| Troubled debt restructures | $ — | $ — | $ 36 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 36 |
| Number of TDRs accounts | — | — | 1 | — | — | — | — | — | — | — | 1 |
| Non-performing TDRs | $ — | $ — | $ 36 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 36 |
| Number of non-performing TDR accounts | — | — | 1 | — | — | — | — | — | — | — | 1 |

| | Loans Secured By Real Estate | | | | | Commercial and Industrial Loans | | | Consumer Loans | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2020 (dollars in thousands)** | **Construction and Land** | **Farmland** | **Single-family Residential** | **Multi-family** | **Commercial** | **Commercial and Industrial** | **SBA Guaranty** | **Commercial SBA PPP** | **Consumer** | **Automobile** | **Total** |
| Pass | $ 2,553 | $ 350 | $ 82,310 | $ 6,105 | $ 52,534 | $ 10,800 | $ 7,200 | $ 9,912 | $ 3,030 | $ 74,064 | $ 248,858 |
| Special mention | — | — | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | 210 | — | 4,493 | — | — | — | 33 | 62 | 4,798 |
| Doubtful | — | — | — | — | — | — | — | — | — | 116 | 116 |
| Loss | — | — | — | — | — | — | — | — | — | — | — |
| | $ 2,553 | $ 350 | $ 82,520 | $ 6,105 | $ 57,027 | $ 10,800 | $ 7,200 | $ 9,912 | $ 3,063 | $ 74,242 | $ 253,772 |
| Nonaccrual | $ — | $ — | $ 270 | $ — | $ 4,029 | $ — | $ — | $ — | $ 34 | $ 179 | $ 4,512 |
| Troubled debt restructures | $ — | $ — | $ 39 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 39 |
| Number of TDRs accounts | — | — | 1 | — | — | — | — | — | — | — | 1 |
| Non-performing TDRs | $ — | $ — | $ 39 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 39 |
| Number of non-performing TDR accounts | — | — | 1 | — | — | — | — | — | — | — | 1 |

The following tables provide information about credit quality indicators by the year of origination at December 31, 2021 and 2020:

| | Origination Year | | | | | | |
|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **2021** | **2020** | **2019** | **2018** | **2017** | **Prior** | **Total** |
| **December 31, 2021** | | | | | | | |
| **Loans Secured By Real Estate:** | | | | | | | |
| Pass | $ 16,498 | $ 12,135 | $ 10,671 | $ 13,558 | $ 6,715 | $ 73,568 | $ 133,145 |
| Special mention | — | — | — | 787 | — | 2,650 | 3,437 |
| Substandard | — | — | — | — | — | — | — |
| Nonaccrual | — | — | — | — | — | 123 | 123 |
| Doubtful | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — |
| | $ 16,498 | $ 12,135 | $ 10,671 | $ 14,345 | $ 6,715 | $ 76,341 | $ 136,705 |
| **Commercial and Industrial Loans:** | | | | | | | |
| Pass | $ 2,766 | $ 4,172 | $ 1,066 | $ 4,128 | $ 1,198 | $ 4,046 | $ 17,376 |
| Special mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Nonaccrual | — | — | — | — | — | 71 | 71 |
| Doubtful | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — |
| | $ 2,766 | $ 4,172 | $ 1,066 | $ 4,128 | $ 1,198 | $ 4,117 | $ 17,447 |
| **Consumer Loans:** | | | | | | | |
| Pass | $ 12,271 | $ 8,222 | $ 11,176 | $ 16,706 | $ 4,908 | $ 2,808 | $ 56,091 |
| Special mention | — | — | — | 5 | — | — | 5 |
| Substandard | — | — | — | — | — | — | — |
| Nonaccrual | 28 | 5 | 38 | 40 | 29 | 4 | 144 |
| Doubtful | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — |
| | $ 12,299 | $ 8,227 | $ 11,214 | $ 16,751 | $ 4,937 | $ 2,812 | $ 56,240 |

| (dollars in thousands) | Origination Year 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2020** | | | | | | | |
| **Loans Secured By Real Estate:** | | | | | | | |
| Pass | $ 13,432 | $ 11,902 | $ 17,234 | $ 10,472 | $ 12,013 | $ 78,801 | $ 143,854 |
| Special mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | 402 | 402 |
| Nonaccrual | — | — | — | 2,597 | — | 1,702 | 4,299 |
| Doubtful | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — |
| | $ 13,432 | $ 11,902 | $ 17,234 | $ 13,069 | $ 12,013 | $ 80,905 | $ 148,555 |
| **Commercial and Industrial Loans:** | | | | | | | |
| Pass | $ 14,906 | $ 1,855 | $ 4,034 | $ 1,686 | $ 1,338 | $ 4,093 | $ 27,912 |
| Special mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Nonaccrual | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — |
| | $ 14,906 | $ 1,855 | $ 4,034 | $ 1,686 | $ 1,338 | $ 4,093 | $ 27,912 |
| **Consumer Loans:** | | | | | | | |
| Pass | $ 11,315 | $ 17,415 | $ 29,259 | $ 11,835 | $ 4,456 | $ 2,812 | $ 77,092 |
| Special mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Nonaccrual | — | 21 | 120 | 32 | 5 | 35 | 213 |
| Doubtful | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — |
| | $ 11,315 | $ 17,436 | $ 29,379 | $ 11,867 | $ 4,461 | $ 2,847 | $ 77,305 |

**Troubled Debt Restructurings**

The restructuring of a loan constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider in the normal course of business. A concession may include an extension of repayment terms which would not normally be granted, a reduction of interest rate or the forgiveness of principal and/or accrued interest. If the debtor is experiencing financial difficulty and the creditor has granted a concession, the Company will make the necessary disclosures related to the TDR. In certain cases, a modification may be made in an effort to retain a customer who is not experiencing financial difficulty. This type of modification is not considered to be a TDR. Once a loan has been modified and is considered a TDR, it is reported as an impaired loan. All TDRs are evaluated individually for impairment on a quarterly basis as part of the allowance for credit losses calculation. A specific allowance for TDR loans is established when the discounted cash flows, collateral value or observable market price, whichever is appropriate, of the TDR is lower than the carrying value. If a loan deemed a TDR has performed for at least six months at the level prescribed by the modification, it is not considered to be non-performing; however, it will generally continue to be reported as impaired, but may be returned to accrual status. A TDR is deemed in default on its modified terms once a contractual payment is 30 or more days past due.

There were no new loans modified as TDRs for the years ended December 31, 2021 and 2020.

At December 31, 2021, the recorded investment in TDR's reflected one loan in the amount of $36,139 which is on nonaccrual. At December 31, 2020, the recorded investment in TDR's reflected one loan in the amount of $38,711 which was on nonaccrual.

The Bank has no commitments to loan additional funds to the borrowers of restructured, impaired, or nonaccrual loans.

**Asset Quality**

The following table presents the loan portfolio segments summarized by aging categories of performing loans and nonaccrual loans as of December 31, 2021 and 2020:

| December 31, 2021 | Current | 30-89 Days Past Due | 90 Days or More and Still Accruing | Nonaccrual | Total |
|---|---|---|---|---|---|
| (dollars in thousands) | | | | | |
| **Loans Secured by Real Estate** | | | | | |
| Construction and land | $ 4,087 | $ — | $ — | $ — | $ 4,087 |
| Farmland | 342 | — | — | — | 342 |
| Single-family residential | 77,981 | — | 15 | 123 | 78,119 |
| Multi-family | 5,428 | — | — | — | 5,428 |
| Commercial | 48,729 | — | — | — | 48,729 |
| Total loans secured by real estate | 136,567 | — | 15 | 123 | 136,705 |
| **Commercial and Industrial** | | | | | |
| Commercial and industrial | 10,003 | — | — | — | 10,003 |
| SBA guaranty | 6,326 | — | — | 71 | 6,397 |
| Comm SBA PPP | 1,047 | — | — | — | 1,047 |
| Total commercial and industrial loans | 17,376 | — | — | 71 | 17,447 |
| **Consumer Loans** | | | | | |
| Consumer | 2,086 | 4 | — | — | 2,090 |
| Automobile | 53,655 | 351 | — | 144 | 54,150 |
| Total consumer loans | 55,741 | 355 | — | 144 | 56,240 |
| | | | | | |
| | $ 209,684 | $ 355 | $ 15 | $ 338 | $ 210,392 |

| December 31, 2020 | Current | 30-89 Days Past Due | 90 Days or More and Still Accruing | Nonaccrual | Total |
|---|---|---|---|---|---|
| (dollars in thousands) | | | | | |
| **Loans Secured by Real Estate** | | | | | |
| Construction and land | $ 2,553 | $ — | $ — | $ — | $ 2,553 |
| Farmland | 350 | — | — | — | 350 |
| Singlefamily residential | 81,057 | 1,175 | 18 | 270 | 82,520 |
| Multi-family | 6,105 | — | — | — | 6,105 |
| Commercial | 52,424 | 574 | — | 4,029 | 57,027 |
| Total loans secured by real estate | 142,489 | 1,749 | 18 | 4,299 | 148,555 |
| **Commercial and Industrial** | | | | | — |
| Commercial and industrial | 10,800 | — | — | — | 10,800 |
| SBA guaranty | 7,200 | — | — | — | 7,200 |
| Comm SBA PPP | 9,912 | — | — | — | 9,912 |
| Total commercial and industrial loans | 27,912 | — | — | — | 27,912 |
| **Consumer Loans** | | | | | — |
| Consumer | 3,029 | — | — | 34 | 3,063 |
| Automobile | 73,611 | 452 | — | 179 | 74,242 |
| Total consumer loans | 76,640 | 452 | — | 213 | 77,305 |
| | | | | | 0 |
| | $ 247,041 | $ 2,201 | $ 18 | $ 4,512 | $ 253,772 |

Loans on which the accrual of interest has been discontinued totaled $0.3 million and $4.5 million at December 31, 2021 and 2020, respectively. The Bank recognizes interest income on non-accrual loans using a cash basis method for the time they are on non-accrual. Interest income that was recognized on these non-accrual loans totaled $14,000 and $201,000 for the years ended December 31, 2021 and 2020. Loans past due 90 days or more and still accruing interest totaled $15,000, and $18,000 at December 31, 2021 and 2020, respectively. Management believes these particular loans are well secured and in the process of full collection of all amounts owed.

Nonaccrual loans with specific reserves at December 31, 2021 are comprised of:

<u>Consumer</u> – One loan to in the amount of $36,139 with $10,331 of specific reserves established for the loans.

## Impaired Loans

The following table presents information with respect to impaired loans. Management determined the specific reserve in the allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less estimated selling costs is used to determine the specific allowance recorded.

| December 31, 2021 (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Interest Income Recognized | Specific Reserve | Average Recorded Investment |
|---|---|---|---|---|---|
| Impaired loans with specific reserves: | | | | | |
| **Loans Secured by Real Estate** | | | | | |
| Construction and land | $ — | $ — | $ — | $ — | $ — |
| Farmland | — | — | — | — | — |
| Single-family residential | 26 | 36 | 2 | 10 | 49 |
| Multi-family | — | — | — | — | — |
| Commercial | — | — | — | — | — |
| Total loans secured by real estate | 26 | 36 | 2 | 10 | 49 |
| **Commercial and Industrial** | | | | | |
| Commercial and industrial | — | — | — | — | — |
| SBA guaranty | — | — | — | — | — |
| Total commercial and industrial loans | — | — | — | — | — |
| **Consumer Loans** | | | | | |
| Consumer | — | — | — | — | — |
| Automobile | — | — | — | — | — |
| Total consumer loans | — | — | — | — | — |
| Total impaired loans with specific reserves | **$ 26** | **$ 36** | **$ 2** | **$ 10** | **$ 49** |
| | | | | | |
| Impaired loans with no specific reserve: | | | | | |
| **Loans Secured by Real Estate** | | | | | |
| Construction and land | $ — | $ — | $ — | $ n/a | $ — |
| Farmland | — | — | — | n/a | — |
| Single-family residential | 87 | 87 | 3 | n/a | 98 |
| Multi-family | — | — | — | n/a | — |
| Commercial | — | — | — | n/a | — |
| Total loans secured by real estate | 87 | 87 | 3 | — | 98 |
| **Commercial and Industrial** | | | | | |
| Commercial and industrial | — | — | — | n/a | — |
| SBA guaranty | 71 | 71 | 1 | n/a | 71 |
| Total commercial and industrial loans | 71 | 71 | 1 | — | 71 |
| **Consumer Loans** | | | | | |
| Consumer | — | — | — | n/a | — |
| Automobile | 143 | 143 | 8 | n/a | 181 |
| Total consumer loans | 143 | 143 | 8 | n/a | 181 |
| Total impaired loans with no specific reserve | **$ 301** | **$ 301** | **$ 12** | **$ —** | **$ 350** |

| December 31, 2020 (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Interest Income Recognized | Specific Reserve | Average Recorded Investment |
|---|---|---|---|---|---|
| Impaired loans with specific reserves: | | | | | |
| **Loans Secured by Real Estate** | | | | | |
| Construction and land | $ — | $ — | $ — | $ — | $ — |
| Farmland | — | — | — | — | — |
| Single-family residential | 28 | 39 | 2 | 11 | 50 |
| Multi-family | — | — | — | — | — |
| Commercial | — | — | — | — | — |
| Total loans secured by real estate | 28 | 39 | 2 | 11 | 50 |
| **Commercial and Industrial** | | | | | |
| Commercial and industrial | — | — | — | — | — |
| SBA guaranty | — | — | — | — | — |
| Total commercial and industrial loans | — | — | — | — | — |
| **Consumer Loans** | | | | | |
| Consumer | — | — | — | — | — |
| Automobile | — | — | — | — | — |
| Total consumer loans | — | — | — | — | — |
| Total impaired loans with specific reserves | **$ 28** | **$ 39** | **$ 2** | **$ 11** | **$ 50** |
| | | | | | |
| Impaired loans with no specific reserve: | | | | | |
| **Loans Secured by Real Estate** | | | | | |
| Construction and land | $ — | $ — | $ — | $ n/a | $ — |
| Farmland | — | — | — | n/a | — |
| Single-family residential | 232 | 383 | — | n/a | 544 |
| Multi-family | — | — | — | n/a | — |
| Commercial | 4,493 | 4,493 | 185 | n/a | 4,315 |
| Total loans secured by real estate | 4,725 | 4,876 | 185 | — | 4,859 |
| **Commercial and Industrial** | | | | | |
| Commercial and industrial | — | — | — | n/a | — |
| SBA guaranty | — | — | — | n/a | — |
| Total commercial and industrial loans | — | — | — | — | — |
| **Consumer Loans** | | | | | |
| Consumer | 34 | 34 | 4 | n/a | 43 |
| Automobile | 117 | 117 | 10 | n/a | 227 |
| Total consumer loans | 151 | 151 | 14 | n/a | 270 |
| Total impaired loans with no specific reserve | **$ 4,876** | **$ 5,027** | **$ 199** | $ — | **$ 5,129** |

## Note 5. Premises and Equipment

A summary of premises and equipment is as follows:

| (dollars in thousands) | Useful lives | December 31, 2021 | 2020 |
|---|---|---|---|
| Land | | $ 685 | $ 685 |
| Buildings | 5-50 years | 6,723 | 6,672 |
| Equipment and fixtures | 5-30 years | 8,354 | 8,055 |
| Construction in progress | | 36 | 99 |
| Operating Lease Assets | | 478 | 623 |
| | | 16,276 | 16,134 |
| Accumulated depreciation | | (12,712) | (12,281) |
| | | $ 3,564 | $ 3,853 |

Depreciation expense totaled $0.3 million for the years ended December 31, 2021 and 2020. Amortization of software totaled $0.1 million for the years ended December 31, 2021 and 2020.

Operating lease Right-of-Use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. The Bank leases its Severna Park and Linthicum branches. Minimum lease obligations under the Severna Park branch are $25,000 per year through September 2022. Minimum lease obligations under the Linthicum branch are $148,756 per year through December 2024, adjusted annually on a pre-determined basis. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Income from rent totaled $69,312 and $65,383 and rent expense totaled $177,845 and $173,593 for the years ended December 31, 2021 and 2020, respectively. The Bank uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. Lease terms may include options to extend or terminate when the Company is reasonably certain that the option will be exercised.

Future minimum payments of the Bank's operating leases as of December 31, 2021 are as follows:

| Year ending December 31, | Amount (dollars in thousands) |
|---|---|
| 2022 | $ 177 |
| 2023 | 156 |
| 2024 | 161 |
| 2025 | 3 |
| 2026 | 2 |
| Thereafter | — |
| Total | $ 499 |

## Note 6. Federal Home Loan Bank, Short- and Long-term Borrowings

The Bank owned 10,598 shares of common stock of the FHLB at December 31, 2021. The Bank is required to maintain an investment of 0.05% of total assets with a dollar cap of $16.2 million, adjusted annually, plus 3.75% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 25% of the Bank's total assets, or approximately $108.2 million at December 31, 2021. Short-term advances totaled $10.0 million under this credit arrangement at December 31, 2021 and long-term advances were $10.0 million at December 31, 2021. This credit facility is secured by a floating lien on the Bank's residential mortgage loan portfolio. Average short-term borrowings approximated $19.8 million and $24.3 million for 2021 and 2020, respectively and the weighted average interest rate was 2.34% and 1.94%, respectively. Average long-term borrowings approximated $2.1 million and $0 for

2021 and 2020, respectively. There were no interest payments made on long-term borrowings for the year ended December 31, 2021.

The Federal Home Loan Bank of Atlanta, convertible and adjustable advances total include the following:

A $10.0 million adjustable rate advance issued on December 31, 2021, which has a final maturity of October 31, 2022. This advance had a 0.20% interest rate at December 31, 2021, with interest payable quarterly. The proceeds of the adjustable rate advance were used as a hedging instrument for the Company's interest rate swap agreements.

A $5.0 million adjustable rate advance issued on December 24, 2021, which has a final maturity of August 24, 2023. This advance has a 0.26% interest rate at December 31, 2021, with interest payable quarterly. The proceeds of the adjustable rate advance were used as a hedging instrument for the Company's interest rate swap agreements.

A $5.0 million adjustable rate advance issued on December 27, 2021, which has a final maturity of July 27, 2023. This advance has a 0.28% interest rate at December 31, 2021, with interest payable quarterly. The proceeds of the adjustable rate advance were used as a hedging instrument for the Company's interest rate swap agreements.

At December 31, 2021 the Bank had available unsecured federal funds lines of credit from two financial institutions for $9.0 million and $8.0 million.

**Derivatives**

During the fourth quarter of 2017, the Company entered into interest rate swaps to manage interest rate risk. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. These instruments are designated as cash flow hedges as the receipt of floating rate interest from the counterparty is used to manage interest rate risk associated with forecasted issuances of short-term FHLB advances. The change in the fair value of this hedging instrument is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transaction affects earnings.

For derivative financial instruments accounted for as hedging instruments, we formally designate and document, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective, and the manner in which the effectiveness of the hedge will be assessed. We formally assess both at inception and at each reporting period thereafter, whether the derivative financial instruments used in hedging transactions are effective in offsetting changes in cash flows of the related underlying exposures. Any ineffective portion of the changes in cash flow of the instruments is recognized immediately into earnings.

ASC 815-10, *Derivatives and Hedging* ("ASC 815") requires companies to recognize all derivative instruments as assets or liabilities at fair value in the consolidated balance sheets. In accordance with ASC 815, we designated our interest rate swaps as cash flow hedges of certain active and forecasted variable rate FHLB advances. Changes in the fair value of the hedging instrument, except any ineffective portion, were recorded in accumulated other comprehensive income (loss) until earnings were impacted by the hedged instrument. No components of our hedging instruments were excluded from the assessment of hedge effectiveness in hedging exposure to variability in cash flows.

Classification of the gain or loss in the consolidated statements of income upon release from accumulated other comprehensive income (loss) is the same as that of the underlying exposure. We discontinue the use of hedge accounting prospectively when (1) the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item; (2) the derivative instrument expires, is sold, terminated, or exercised; or (3) designating the derivative instrument as a hedge is no longer appropriate. When we discontinue hedge accounting because it is no longer probable that an anticipated transaction will occur in the originally expected period, or within an additional two-month period thereafter, changes to fair value that were recorded in accumulated other comprehensive income (loss) are recognized immediately in earnings.

As of December 31, 2021, the Company had three outstanding interest rate swaps designated as a cash flow hedges with an aggregate notional value of $20.0 million. The agreements have five year terms and stipulates that the counterparty will pay the Company interest at three-month LIBOR and the Company will pay fixed rates of interest at 2.105%, 2.235% and 2.246% on the $10.0 million, $5.0 million and $5.0 million notional amounts, respectively. These interest rate swaps of $10.0 million, $5.0 million and $5.0 million mature on October 2022, July 2023, and August 2023, respectively, and hedge three-month FHLB advances that will be renewed every year at the SOFR interest rate at that time. The $10.0 million contract is an interest rate swap that became effective in November 2017 and the two $5.0 million contracts are interest rate swaps that became effective in July 2018 and August 2018. After-tax unrealized losses of $126,000, $99,000, and $96,000 were recognized in accumulated other comprehensive income for the year ended December 31, 2021 and unrealized losses of $281,000, $204,000, and $204,000 were recognized in accumulated other comprehensive income for the year ended December 31, 2020. There was no ineffective portion of these hedges. The Company pays or receives the net interest amount quarterly and includes this amount as part of FHLB advances interest expense on the consolidated income statements.

The cash flow hedges were determined to be fully effective during all periods presented. As such, no ineffectiveness has been included in net income.

The following table reflects information about swaps designated as cash flow hedges as of December 31, 2021 and 2020:

| | | | | | At December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 2021 | | 2020 | |
| (dollars in thousands) | Notional Amount | Pay Rate | Receive Rate | Term | Assets/ Liabilities | Unrealized Loss AOCI | Assets/ Liabilities | Unrealized Loss AOCI |
| Interest rate swap on FHLB advance | $ 10,000 | 2.105 % | 3M LIBOR | 11/2017 - 10/2022 | $ (174) | $ (126) | $ (387) | $ (281) |
| Interest rate swap on FHLB advance | 5,000 | 2.235 % | 3M LIBOR | 7/2018 - 7/2023 | (136) | (99) | (281) | (204) |
| Interest rate swap on FHLB advance | 5,000 | 2.246 % | 3M LIBOR | 8/2018 - 8/2023 | (132) | (96) | (281) | (204) |
| Total | $ 20,000 | | | | $ (442) | $ (321) | $ (949) | $ (689) |

The following table reflects the total interest expense recorded on these swap transactions in the consolidated statements of income during the year ended December 31, 2021 and December 31, 2020:

| | | Years Ended December 31, | |
|---|---|---|---|
| (dollars in thousands) | Bank Position | 2021 | 2020 |
| Interest rate swap on FHLB advance | Pay fixed/receive variable | $ (194) | $ (113) |
| Interest rate swap on FHLB advance | Pay fixed/receive variable | (105) | (63) |
| Interest rate swap on FHLB advance | Pay fixed/receive variable | (105) | (65) |
| Total | | $ (404) | $ (241) |

The Bank is required to pledge securities as collateral for all swaps with dealer counterparties. The fair value of cash or investment securities pledged as collateral by the Bank totaled $1,175,000 and $949,000 at December 31, 2021 and 2020.

## Note 7. Deposits

The following table summarizes the major classifications of deposit balances as of the dates indicated:

| (dollars in thousands) | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Noninterest-bearing deposits | $ 155,624 | $ 132,626 |
| Interest-bearing deposits: | | |
| Interest-bearing checking | 37,305 | 32,601 |
| Money Market | 23,103 | 19,077 |
| Savings | 106,818 | 97,036 |
| Time deposits, $100,000 or more | 24,624 | 28,270 |
| Time deposits below $100,000 | 35,773 | 40,010 |
| Total interest- bearing deposits | 227,623 | 216,994 |
| Total Deposits | $ 383,247 | $ 349,620 |

Interest expense on deposits for the years ended December 31, 2021 and 2020 is as follows:

| (dollars in thousands) | 2021 | 2020 |
|---|---|---|
| Interest-bearing checking | $ 11 | $ 9 |
| Money Market | 11 | 9 |
| Savings | 51 | 60 |
| Time deposits, $100,000 or more | 248 | 440 |
| Time deposits below $100,000 | 288 | 525 |
| Total Interest Expense | $ 609 | $ 1,043 |

The Bank recognized $0.2 million of fee income from deposits for the years ended December 31, 2021 and 2020.

At December 31, 2021, the scheduled maturities of time deposits are approximately as follows:

| (dollars in thousands) | Amount |
|---|---|
| Maturing in: | |
| 2022 | $ 32,541 |
| 2023 | 9,886 |
| 2024 | 8,802 |
| 2025 | 3,916 |
| 2026 | 4,323 |
| 2027 and thereafter | 929 |
| Total Time Deposits | $ 60,397 |

Deposit balances of executive officers and directors and their affiliated interests totaled approximately $2.2 million and $2.8 million at December 31, 2021 and 2020, respectively.

The Bank had no brokered deposits at December 31, 2021 and 2020.

## Note 8. Income Taxes

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

| (dollars in thousands) | 2021 | 2020 |
|---|---|---|
| Current income tax expense: | | |
| Federal | $ 211 | $ 89 |
| State | 84 | 157 |
| Total current tax expense | 295 | 246 |
| Deferred income tax expense: | | |
| Federal | 198 | 217 |
| State | 84 | 28 |
| Total deferred tax expense | 282 | 245 |
| Total Income tax expense | $ 577 | $ 491 |

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

| (dollars in thousands) | 2021 | 2020 |
|---|---|---|
| Income tax expense at federal statutory rate | $ 650 | $ 453 |
| (Decrease) increase resulting from: | | |
| Tax-exempt income | (181) | (75) |
| Bank owned life insurance | (33) | (33) |
| State income taxes, net of Federal income tax benefit | 133 | 146 |
| Other | 8 | — |
| Total income tax expense | $ 577 | $ 491 |

Deferred tax assets and liabilities resulting from the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at December 31, 2021 and 2020 are as follows:

| (dollars in thousands) | 2021 | 2020 |
|---|---|---|
| Deferred income tax benefits: | | |
| Accrued deferred compensation | $ 84 | $ 78 |
| Allowance for credit losses | 376 | 143 |
| Accumulated depreciation | (22) | (16) |
| Other real estate owned | — | 36 |
| Reserve for unfunded commitments | 102 | 9 |
| Accounting standard 310-20 | (144) | (117) |
| Right of use asset | (132) | (171) |
| Lease liability | 132 | 171 |
| Accumulated securities premium accretion | 228 | 214 |
| Net unrealized depreciation on investment securities available for sale | 211 | (466) |
| Net unrealized loss on Swaps | 121 | 261 |
| Net deferred income tax benefits | $ 956 | $ 142 |

Management has determined that no valuation allowance is required as it believes it is more likely than not that all of the deferred tax assets will be fully realizable in the future. At December 31, 2021 and 2020, management believes there are no uncertain tax positions under ASC Topic 740 *Income Taxes.* We file income tax returns in the US federal jurisdictions. We are no longer subject to US federal income tax examinations by tax authorities for years before 2018.

Income tax expense was $0.58 million and $0.49 million at December 2021 and 2020, respectively.

**Note 9. Pension and Profit Sharing Plans**

The Bank has a defined contribution retirement plan qualifying under Section 401(k) of the Internal Revenue Code that is funded through a profit sharing agreement and voluntary employee contributions. Annual contributions, included in employee benefit expense, totaled $493,000 and $451,000 for the years ended December 31, 2021 and 2020, respectively.

**Note 10. Other Benefit Plans**

The Company is the owner and beneficiary of BOLI policies on certain current and former employees. Cash value totaled $8.3 million and $8.2 million at December 31, 2021 and 2020, respectively. Income on insurance investment totaled $0.2 for years ended 2021 and 2020.

The Bank has an unfunded grantor trust, as part of a change in control severance plan, covering substantially all employees. Participants in the plan are entitled to cash severance benefits upon termination of employment, for any reason other than just cause, should a "change in control" of the Company occur.

**Note 11. Other Noninterest Expenses**

Other noninterest expenses include the following:

| | Year Ended December 31, 2021 | 2020 |
|---|---|---|
| **(dollars in thousands)** | | |
| Loan related expenses | $ 195 | $ 115 |
| Other ATM expenses | 36 | 77 |
| Director, executive and audit committee fees and expenses | 167 | 168 |
| Postage, delivery and courier expenses | 70 | 39 |
| Office supplies expenses | 35 | 54 |
| Credit report fees | 38 | 32 |
| Dues and subscription fees | 93 | 95 |
| Examination and assessment fees | 48 | 58 |
| Federal Reserve and correspondent bank services | 30 | 36 |
| Foreclosed property expenses | 23 | 147 |
| Liability insurance | 85 | 64 |
| Release for unfunded commitments | (119) | (5) |
| Card services | 114 | 54 |
| NASDAQ registration | 56 | 43 |
| Investor services | 43 | 42 |
| Other | 195 | 203 |
| | | |
| Total Other Noninterest Expense | $ 1,109 | $ 1,222 |

**Note 12. Commitments and Contingencies**

Financial instruments:

The Bank is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements.

Outstanding loan commitments, unused lines of credit and letters of credit are as follows:

| (dollars in thousands) | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Loan commitments: | | |
| Other mortgage loans | $ 2,863 | $ 2,229 |
| | | |
| Unused lines of credit: | | |
| Home-equity lines | $ 9,224 | $ 8,672 |
| Commercial lines | 15,432 | 19,982 |
| Unsecured consumer lines | 648 | 678 |
| | $ 25,304 | $ 29,332 |
| Letters of credit: | $ 55 | $ 1,044 |

Loan commitments and lines of credit are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Many of the loan commitments and lines of credit are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral and obtains personal guarantees supporting those commitments for which collateral or other securities is deemed necessary.

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2021, the Bank has accrued $370,680 as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

**Note 13. Stockholders' Equity**

**Restrictions on Dividends**

The Company's ability to pay dividends to its stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years.

Retained earnings from which dividends may not be paid without prior approval totaled approximately $20.2 million at December 31, 2021 and $21.2 million at December 31, 2020 based on the earnings restrictions and minimum capital ratio requirements noted below.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. Notwithstanding the availability of funds for dividends, however, the Federal Reserve may prohibit the payment of any dividends by the subsidiary banks if the Federal Reserve determines such payment would constitute an unsafe or unsound practice.

**Employee Stock Purchase Benefit Plans**

The Company has a stock-based compensation plan, which is described below. There were no options issued or activity under this plan since August 2007.

Employees who have completed one year of service are eligible to participate in the employee stock purchase plan. The number of shares of common stock granted under options will bear a uniform relationship to compensation. The plan allows employees to buy stock under options granted at 85% of the fair market value of the stock on the date of grant. Options are vested when granted and will expire no later than 27 months from the grant date or upon termination of employment.

At December 31, 2021, shares of common stock reserved for issuance under the plan totaled 25,739.

The Board of Directors may suspend or discontinue the plan at its discretion.

**Dividend Reinvestment and Stock Purchase Plan**

The Company's dividend reinvestment and stock purchase plan allows all participating stockholders the opportunity to receive additional shares of common stock in lieu of cash dividends at 95% of the fair market value on the dividend payment date.

During 2021 and 2020, shares of common stock purchased under the plan totaled 11,841 and 14,566, respectively. At December 31, 2021, shares of common stock reserved for issuance under the plan totaled 64,697.

The Board of Directors may suspend or discontinue the plan at its discretion.

**Stockholder Purchase Plan**

The Company's stockholder purchase plan allows participating stockholders the option to purchase newly issued shares of common stock. The Board of Directors shall determine the number of shares that may be purchased pursuant to options. Options granted will expire no later than three months from the grant date. Each option will entitle the stockholder to purchase one share of common stock, and will be granted in proportion to stockholder share holdings. At the discretion of the Board of Directors, stockholders may be given the opportunity to purchase unsubscribed shares.

There was no activity under this plan since June 23, 2000.

At December 31, 2021, shares of common stock reserved for issuance under the plan totaled 183,348.

The Board of Directors may suspend or discontinue the plan at its discretion.

Under all three plans, options granted, exercised, and expired, shares issued and reserved, and grant prices have been restated for the effects of any stock dividends or stock splits.

**Regulatory Capital Requirements**

The Bank's primary regulator is the Federal Deposit Insurance Corporation ("FDIC") and is subject to regulation, supervision and regular examination by the Maryland Commissioner of Financial Regulation (the "Commissioner") and the FDIC. The Company is subject to regulation, examination and supervision by the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and the regulations of the Federal Reserve Board.

On January 1, 2015, the Bank became subject to the new Basel III Capital Rules with full compliance with all of the final rule's requirements phased in over a multi-year schedule, to be fully phased-in by January 1, 2019. However, the new Basel III Capital Rules do not apply to the Company since it is a small bank holding company with less than $1.0 billion in total consolidated assets. In July 2013, the final rules were published establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions compared to the previous U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

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

The rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. A new capital conservation buffer is also established above the regulatory minimum capital requirements. This capital conservation buffer began its phase-in period beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Strict eligibility criteria for regulatory capital instruments were also implemented under the final rules.

The final rules also revise the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets. The Common Equity Tier 1, Tier 1 and Total Capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

As of December 31, 2021 and 2020, the Bank was well-capitalized under the regulatory framework for prompt corrective action under the new Basel III Capital Rules. Management believes, as of December 31, 2021 and 2020, that the Bank met all capital adequacy requirements to which they were subject. The following table presents actual and required capital ratios as of December 31, 2021 and 2020 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2021 and December 31, 2020 based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

The Company and Bank are subject to regulatory capital requirements administered by federal banking agencies. Management has determined that the Company's risk-based capital ratios are not materiality different than the Bank's and are not reflected in the table below.

| | Actual | | To Be Considered Adequately Capitalized | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2021** | | | | | | |
| Common Equity Tier 1 Capital | $ 37,592 | 15.32 % | $ 11,044 | 4.50 % | $ 15,952 | 6.50 % |
| Total Risk-Based Capital | $ 39,329 | 16.03 % | $ 19,634 | 8.00 % | $ 24,542 | 10.00 % |
| Tier 1 Risk-Based Capital | $ 37,592 | 15.32 % | $ 14,725 | 6.00 % | $ 19,634 | 8.00 % |
| Tier 1 Leverage | $ 37,592 | 8.40 % | $ 17,910 | 4.00 % | $ 22,388 | 5.00 % |

| | Actual | | To Be Considered Adequately Capitalized | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2020** | | | | | | |
| Common Equity Tier 1 Capital | $ 36,442 | 13.09 % | $ 12,532 | 4.50 % | $ 18,101 | 6.50 % |
| Total Risk-Based Capital | $ 37,951 | 13.63 % | $ 22,278 | 8.00 % | $ 27,848 | 10.00 % |
| Tier 1 Risk-Based Capital | $ 36,442 | 13.09 % | $ 16,709 | 6.00 % | $ 22,278 | 8.00 % |
| Tier 1 Leverage | $ 36,442 | 9.12 % | $ 15,980 | 4.00 % | $ 19,975 | 5.00 % |

**Note 14. Earnings Per Common Share**

The calculation of net income per common share for the years ended December 31, 2021 and 2020 are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Basic earnings per share: | | |
| Net income | $ 2,516,387 | $ 1,667,741 |
| Weighted average common shares outstanding | 2,848,465 | 2,835,037 |
| Basic net income per share | $ 0.88 | $ 0.59 |

Diluted earnings per share calculations were not required for 2021 and 2020 as there were no options outstanding at December 31, 2021 and 2020.

**Note 15. Fair Values of Financial Instruments**

ASC Topic 825, *Disclosure about Fair Value of Financial Instruments*, requires the disclosure of the estimated fair values of financial instruments. Quoted market prices, where available, are shown as estimates of fair values. Because no quoted market prices are available for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on the amount and timing of future cash flows and estimated discount rates.

Present value techniques used in estimating the fair value of the Company's financial instruments are significantly affected by the assumptions used. Fair values derived from using present value techniques are not substantiated by comparisons to independent markets, and in many cases, could not be realized in immediate settlement of the instruments.

ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following table presents the estimated fair value and the related carrying values of the Company's financial instruments as December 31, 2021 and 2020. Items that are not financial instruments are not included.

| (dollars in thousands) | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | $ 2,111 | $ 2,111 | $ 2,117 | $ 2,117 |
| Interest-bearing deposits in other financial institutions | 56,434 | 56,434 | 29,730 | 29,730 |
| Federal funds sold | 3,636 | 3,636 | 5,246 | 5,246 |
| Investment securities available for sale | 155,927 | 155,927 | 114,049 | 114,049 |
| Investments in restricted stock | 1,062 | 1,062 | 1,199 | 1,199 |
| Ground rents | 131 | 131 | 140 | 140 |
| Loans, less allowance for credit losses | 207,922 | 211,541 | 252,296 | 253,946 |
| Accrued interest receivable | 1,085 | 1,085 | 1,302 | 1,302 |
| Cash value of life insurance | 8,338 | 8,338 | 8,181 | 8,181 |
| | | | | |
| Financial liabilities: | | | | |
| Deposits | 383,247 | 383,910 | 349,620 | 350,666 |
| Long-term borrowings | 10,000 | 9,888 | — | — |
| Short-term borrowings | 10,000 | 10,000 | 29,912 | 29,935 |
| Accrued interest payable | 11 | 11 | 16 | 16 |
| Unrecognized financial instruments: | | | | |
| Commitments to extend credit | 28,167 | 28,167 | 31,561 | 31,561 |
| Standby letters of credit | 55 | 55 | 1,044 | 1,044 |

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments.

| (dollars in thousands)<br>December 31, 2021 | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Financial instruments - Assets | | | | | |
| Cash and cash equivalents | $ 62,181 | $ 62,181 | $ 62,181 | — | $ — |
| Loans receivable, net | 207,922 | 211,541 | — | — | 211,541 |
| Cash value of life insurance | 8,338 | 8,338 | — | 8,338 | — |
| Financial instruments - Liabilities | | | | | |
| Deposits | 383,247 | 383,910 | 227,580 | 156,330 | — |
| Long-term debt | 10,000 | — | — | — | — |
| Short-term debt | 10,000 | 10,000 | — | 10,000 | — |

For purposes of the disclosures of estimated fair value, the following assumptions were used.

**Loans.** The estimated fair value for loans is determined by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

**Investment securities**. Fair values for investment securities are based on quoted market prices, where applicable. When quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

**Deposits**. The estimated fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the rates currently offered for deposits of similar maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

**Borrowings**. The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed rate borrowings is estimated by discounting future cash flows using current interest rates currently offered for similar financial instruments over the same maturities.

**Other assets and liabilities.** The estimated fair values for cash and due from banks, interest-bearing deposits in other financial institutions, Federal funds sold, accrued interest receivable and payable, and short-term borrowings are considered to approximate cost because of their short-term nature. Other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. In addition, non-financial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

**Note 16. Fair Value Measurements**

The Company follows ASC Topic 820, *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or on a nonrecurring basis.

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

**The Fair Value Hierarchy**

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets and liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included in 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 and 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.

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to ASC Topic 820. The Bank's securities available for sale and interest rate swaps are the only assets or liabilities subject to fair value measurements on a recurring basis. The Bank may also be required, from time to time, to measure certain other financial and non-financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP.

Fair value measurements on a recurring and non-recurring basis at December 31, 2021 and 2020 are as follows:

| (dollars in thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| **December 31, 2021** | | | | |
| Recurring: | | | | |
| Securities available for sale | | | | |
| State and Municipal | — | 45,225 | — | 45,225 |
| Mortgaged-backed | — | 109,228 | — | 109,228 |
| Corporate securities | — | 1,474 | — | 1,474 |
| Interest rate swap | — | (442) | — | (442) |
| | | | | |
| Non-recurring: | | | | |
| Maryland Financial Bank stock | — | — | 3 | 3 |
| Impaired loans | — | — | 317 | 317 |
| OREO | — | — | — | — |
| | $ — | $ 155,485 | $ 320 | $ 155,805 |
| **December 31, 2020** | | | | |
| Recurring: | | | | |
| Securities available for sale | | | | |
| State and Municipal | — | 29,413 | — | 29,413 |
| Mortgaged-backed | — | 84,636 | — | 84,636 |
| Interest rate swap | — | (949) | — | (949) |
| | | | | |
| Non-recurring: | | | | |
| Maryland Financial Bank stock | — | — | 3 | 3 |
| Impaired loans | — | — | 4,893 | 4,893 |
| OREO | — | 575 | — | 575 |
| | $ — | $ 113,675 | $ 4,896 | $ 118,571 |

Securities available for sale and interest rate swaps are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Measured on a Non-Recurring Basis:

Financial Assets and Liabilities

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. Loans which are deemed to be impaired and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals. Based on these appraisals, management has applied a specific valuation allowance allocation of $10,000 and $11,000 in 2021 and 2020, respectively, to the impaired loans, which management considers to be level 3 inputs.

Fair Value Measurements

We obtain fair values for our impaired loans through a variety of data points and mostly rely on appraisals from independent appraisers. These appraisals do not include an inside inspection of the property as our loan documents do not require the borrower to allow access to the property. Therefore the most significant unobservable inputs is the details of the amenities included within the property and the condition of the property. Further, we cannot always accurately assess the amount of time it takes to gain ownership of our collateral through the foreclosure process and the damage, as well as potential looting, of the property further decreasing our value.

We typically get independent appraisals of properties within three months from the time we determine there may be a collateral shortfall from an impaired loan. The appraisals are typically updated every 12 months from the independent appraiser and more frequently if we feel material changes in value may have occurred for this specific property. During interim periods, typically at the end of each calendar quarter, we review other data points such as a comparable from other like properties or changes in tax assessment values.

Non-Financial Assets and Non-Financial Liabilities

Application of ASC Topic 820 to non-financial assets and non-financial liabilities became effective January 1, 2009. The Corporation has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities typically measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

Foreclosed real estate, which are considered to be non-financial assets, have been valued using a market approach. The values were determined using market prices of similar current real estate assets in the same geographical area, which the Bank considers to be level 2 inputs.

**Note 17. Revenue Recognition**

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

*Service Charges on Deposit Accounts.* Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided.

Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

*Other Noninterest Income.* Other noninterest income consists of: fees, exchange, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment.

## Note 18. Parent Company Financial Information

The Balance Sheets, Statements of Income, and Statements of Cash Flows for Glen Burnie Bancorp (Parent Only) are presented below:

### Balance Sheets

| December 31, (dollars in thousands) | 2021 | 2020 |
|---|---|---|
| **Assets** | | |
| Cash | $ 99 | $ 111 |
| Investment in The Bank of Glen Burnie | 35,614 | 36,982 |
| Other assets | 3 | — |
| **Total assets** | $ 35,716 | $ 37,093 |
| **Liabilities and Stockholders' Equity** | | |
| Stockholders' equity: | | |
| Common stock | 2,854 | 2,842 |
| Surplus | 10,759 | 10,640 |
| Retained earnings | 22,977 | 23,071 |
| Accumulated other comprehensive income (loss), net of benefits | (874) | 540 |
| **Total stockholders' equity** | 35,716 | 37,093 |
| **Total liabilities and stockholders' equity** | $ 35,716 | $ 37,093 |

### Statements of Income

| Year Ended December 31, (dollars in thousands) | 2021 | 2020 |
|---|---|---|
| Dividends and distributions from subsidiary | $ 1,200 | $ 1,265 |
| Other expenses | (245) | (236) |
| Income before income tax benefit and equity in undistributed net income of subsidiary | 955 | 1,029 |
| Income tax benefit | 44 | 43 |
| Change in undistributed equity of subsidiary | 1,517 | 596 |
| **Net income** | $ 2,516 | $ 1,668 |

**Statements of Cash Flows**

| Year Ended December 31, | 2021 | 2020 |
|---|---|---|
| | (dollars in thousands) | |
| **Cash flows from operating activities:** | | |
| Net income | $ 2,516 | $ 1,668 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Increase) decrease in other assets | (3) | — |
| Change in undistributed equity of subsidiary | (1,517) | (596) |
| Net cash provided by operating activities | 996 | 1,072 |
| **Cash flows from financing activities:** | | |
| Proceeds from dividend reinvestment plan | 130 | 130 |
| Dividends paid | (1,138) | (1,134) |
| Net cash used in financing activities | (1,008) | (1,004) |
| **(Decrease) increase in cash** | (12) | 68 |
| **Cash, beginning of year** | 111 | 43 |
| **Cash, end of year** | $ 99 | $ 111 |

**Note 19. Quarterly Results of Operations (Unaudited)**

The following is a summary of consolidated unaudited quarterly results of operations:

**2021**

| (dollars in thousands, except per share amounts) | Three months ended December 31, | September 30, | June 30, | March 31, |
|---|---|---|---|---|
| Interest income | $ 3,461 | $ 3,605 | $ 3,290 | $ 3,161 |
| Interest expense | 251 | 265 | 274 | 284 |
| Net interest income | 3,210 | 3,340 | 3,016 | 2,877 |
| Provision for credit losses | (382) | (122) | (67) | (404) |
| Net securities gains | (589) | 1 | — | — |
| Income before income taxes | 693 | 1,131 | 570 | 699 |
| Net income | 555 | 888 | 479 | 594 |
| Net income per share (basic and diluted) | $ 0.19 | $ 0.31 | $ 0.17 | $ 0.21 |

**2020**

| (dollars in thousands, except per share amounts) | Three months ended December 31, | September 30, | June 30, | March 31, |
|---|---|---|---|---|
| Interest income | $ 3,485 | $ 3,349 | $ 3,336 | $ 3,499 |
| Interest expense | 313 | 353 | 398 | 451 |
| Net interest income | 3,172 | 2,996 | 2,938 | 3,048 |
| Provision for credit losses | (427) | (669) | 487 | (80) |
| Net securities gains | 6 | — | — | — |
| Income before income taxes | 712 | 1,232 | (128) | 343 |
| Net income | 547 | 949 | (96) | 268 |
| Net income per share (basic and diluted) | $ 0.20 | $ 0.33 | $ (0.03) | $ 0.09 |

**Note 20. Subsequent Events**

As the result of the sale by TGM Group LLC ("TGM") of its accounting and auditing business to UHY LLP ("UHY"), TGM resigned its engagement as the independent registered public accounting firm of Glen Burnie Bancorp (the "Company") effective January 3, 2022, the date of the sale.

The audit reports of TGM on the financial statements for the past two years did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2020 and December 31, 2021, and the subsequent period through January 3, 2022, there were no disagreements (as defined in Item 304(a)(1)(iv) of regulation S-K and the related instructions to Item 304 of Regulation S-K) with TGM, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to TGM's satisfaction, would have caused TGM to make reference to the subject matter of the disagreement in its reports on the consolidated financial statements for such years.

During the fiscal years ended December 31, 2020 and December 31, 2021, and the subsequent period through January 3, 2022, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

On February 10, 2022, the Audit Committee of the Company's Board of Directors engaged UHY as its independent registered public accounting firm for the year ending December 31, 2022, effective immediately.

During the Company's fiscal years ended December 31, 2020 and December 31, 2021, and the subsequent interim period through February 10, 2022, neither the Company nor anyone acting on its behalf has consulted with UHY regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

XBRL-Only Content Section

| Element | Value | |
|---|---|---|
| dei:EntityCentralIndexKey# | 0000890066 | |
| dei:CurrentFiscalYearEndDate | 12-31 | |
| dei:DocumentFiscalYearFocus | 2021 | |
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| dei:AmendmentFlag | true/false | |

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