CECIL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

INDEX

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Cecil Bancorp, Inc.

Opinion

We have audited the consolidated financial statements of Cecil Bancorp, Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 10, 2023

CECIL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(in thousands, except per share data)

ASSETS	2022	2021
Cash and due from banks	$ 483	$ 556
Interest bearing deposits with banks	16,912	38,029
Federal funds sold	266	337
Total cash and cash equivalents	17,661	38,922
Securities available-for-sale at fair value	13,776	18,720
Restricted investment securities – at cost	1,009	723
Loans receivable	185,721	163,091
Less: Allowance for loan losses	(1,622)	(1,495)
Net loans receivable	184,099	161,596
Other real estate owned, net of valuation allowance of $70 and $694	248	8,143
Premises and equipment, net	2,918	3,013
Accrued interest receivable	907	694
Deferred tax asset	9,637	—
Other assets	7,367	4,493
TOTAL ASSETS	$ 237,622	$ 236,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits	$ 207,127	$ 215,206
Advances from Federal Reserve Bank of Richmond	—	221
Other liabilities	2,047	1,583
Total liabilities	209,174	217,010
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; authorized 1,000,000,000 shares in 2022 and 2021, issued and outstanding 11,517,504 voting shares and 3,945,427 nonvoting shares in 2022 and 2021	154	154
Additional paid in capital	52,660	52,623
Retained deficit	(22,740)	(33,066)
Accumulated other comprehensive income (loss)	(1,626)	(417)
Total stockholders' equity	28,448	19,294
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 237,622	$ 236,304

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands, except per share data)

	2022	2021
INTEREST INCOME:		
Interest and fees on loans	$ 7,995	$ 4,478
Interest on investment securities	296	120
Dividends on FHLB and FRB stock	38	25
Other interest income	287	36
Total interest income	8,616	4,659
INTEREST EXPENSE:		
Interest expense on deposits	1,191	1,298
Interest expense on advances from Federal Reserve Bank of Richmond	—	3
Total interest expense	1,191	1,301
NET INTEREST INCOME	7,425	3,358
PROVISION FOR LOAN LOSSES	812	850
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,613	2,508
NONINTEREST INCOME:		
Deposit account fees	144	132
ATM fees	359	375
Gain (loss) on sale of loans	—	515
Gain (loss) on sale of investment securities	—	1
Gain (loss) on sale of repossessed assets	6	—
Gain (loss) on premises and equipment	—	(5)
Other	223	158
Total noninterest income	732	1,176
NONINTEREST EXPENSE:		
Salaries and employee benefits	2,844	2,401
Occupancy expense	442	459
Equipment and data processing expense	938	875
Professional fees	1,051	1,389
FDIC deposit insurance premium	301	288
Other real estate owned expense, (gain) loss on sale, and valuation adjustments, net	(1,216)	163
Insurance expense	271	283
Provision for off balance sheet credit losses	550	—
Other	740	762
Total noninterest expense	5,921	6,620
INCOME (LOSS) BEFORE INCOME TAXES	1,424	(2,936)
INCOME TAX EXPENSE (BENEFIT)	(8,902)	—
NET INCOME (LOSS)	$ 10,326	$ (2,936)
Earnings (loss) per common share - basic	$ 0.66	$ (0.28)
Earnings (loss) per common share - diluted	$ 0.66	$ (0.28)
Dividends declared per common share	$ 0.00	$ 0.00

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands)

	2022	2021
Net income (loss)	$ 10,326	$ (2,936)
Other comprehensive income (loss):		
Net unrealized gain (loss) on securities available for sale, net of deferred taxes of $735 in 2022	(1,209)	(543)
Reclassification of securities sold at a gain	—	(1)
Other comprehensive income (loss)	(1,209)	(544)
Total comprehensive income (loss)	$ 9,117	$ (3,480)

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands)

	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2021	$ 76	$ 42,965	$ (30,130)	$ 127	$ 13,038
Net income (loss)	—	—	(2,936)	—	(2,936)
Other comprehensive income (loss)	—	—	—	(544)	(544)
Common stock issued in private offering	77	9,484	—	—	9,561
Stock-based compensation	1	174	—	—	175
BALANCES AT DECEMBER 31, 2021	154	52,623	(33,066)	(417)	19,294
Net income (loss)	—	—	10,326	—	10,326
Other comprehensive income (loss)	—	—	—	(1,209)	(1,209)
Stock-based compensation	—	37	—	—	37
BALANCES AT DECEMBER 31, 2022	$ 154	$ 52,660	$ (22,740)	$ (1,626)	$ 28,448

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 10,326	$ (2,936)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation on premises and equipment	168	146
Amortization of right of use assets	126	140
Amortization on investment securities	128	821
Provision for loan losses	812	850
Provision for off balance sheet credit losses	550	—
(Gain) loss on sale of loans	—	(515)
(Gain) loss on sale of repossessed assets	(6)	—
(Gain) loss on sale and valuation adjustments of other real estate owned, net	(1,289)	5
(Gain) loss on sale of investment securities available-for-sale	—	(1)
(Gain) loss on disposal of premises and equipment	—	5
Common stock granted for services	37	175
Deferred tax asset valuation increase	(8,902)	—
Net change in:		
Accrued interest receivable and other assets	(2,852)	5,933
Other liabilities	(86)	(23)
Net cash provided by (used in) operating activities	(988)	4,600
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales, maturities, calls and principal payments of investment securities available-for-sale	2,872	38,209
Net (purchase) redemption of restricted investment securities	(286)	(223)
Proceeds from sale of loans	—	4,195
Purchase of loans	(62,686)	(103,218)
Net decrease in loans	39,016	13,022
Proceeds from sale of other real estate owned	9,223	5,057
Capitalized improvements of other real estate owned	(39)	(2,015)
Purchases of premises and equipment	(73)	(809)
Net cash provided by (used in) investing activities	(11,973)	(45,782)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(8,079)	41,244
Net decrease in advances from Federal Reserve Bank of Richmond	(221)	(484)
Proceeds from issuance of common stock	—	9,561
Net cash provided by (used in) financing activities	(8,300)	50,321
Increase (decrease) in cash and cash equivalents	(21,261)	9,139
Cash and cash equivalents at beginning of year	38,922	29,783
Cash and cash equivalents at end of year	$ 17,661	$ 38,922
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 1,167	$ 1,300
Cash paid for income taxes	$ —	$ —
Supplemental disclosure of noncash investing and financing activities:		
Transfer of loans to other real estate owned	$ —	$ 43
Unrealized loss on investment securities available-for-sale	$ (1,944)	$ (544)
Transfer of other real estate owned to other assets	$ 4,680	$ —
Transfer of loans to repossessed assets	$ 355	$ —

See accompanying notes to consolidated financial statements.

CECIL BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Cecil Bancorp, Inc. (the "Company") and its wholly owned subsidiary, Cecil Bank (the "Bank"), together with its subsidiaries, Cecil Financial Services Corporation, Cecil Real Properties, LLC, Novo Realty, LLC, Route 9 Old New Castle, LLC, and Chesapeake Club Subdivision, LLC conform to accounting principles generally accepted in the United States of America.

The following is a summary of the more significant accounting policies:

Nature of Operations

Through its subsidiary bank, the Company conducts full-service commercial banking primarily in Cecil County, Maryland. Services to individuals and businesses include accepting deposits, and extending real estate, consumer and commercial loans and lines of credit.

Policy for Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. Consolidation has resulted in the elimination of all significant intercompany balances and transactions. The financial statements of the Company (parent only) include its investment in its subsidiary under the equity method of accounting.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, other real estate owned valuation, deferred tax valuation allowance, and other-than-temporary impairment of investment securities.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. Assets categorized in the balance sheet as cash and due from banks, interest bearing deposits with banks, and federal funds sold are considered cash and cash equivalents. Interest bearing deposits with banks generally exceed balances that are recoverable under Federal Deposit Insurance Corporation ("FDIC") insurance.

Investment Securities

Debt securities the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Debt securities are classified as trading securities if bought and held principally for the purpose of selling them in the near-term. Trading securities are reported at estimated fair value, with unrealized gains and losses included in earnings. Debt securities not classified as held-to-maturity or trading securities are considered available-for-sale and are reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, in accumulated other comprehensive income. The Company designates debt securities into one of the three categories at the time of purchase.

Premiums and discounts on investments are recognized in interest income over the terms of the securities using methods that approximate the interest method. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the duration and magnitude of the decline in value, (2) the financial condition of the issuer, and (3) the structure of the security. An impairment loss is recognized in earnings only when (1) the Company intends to sell the security, (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the investment. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss will be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss will be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of other comprehensive income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Investment Securities

Restricted investment securities consist of Federal Reserve Bank of Richmond ("FRB"), Federal Home Loan Bank of Atlanta ("FHLB"), and Community Bankers' Bank ("CBB") stock which are required by law or are restricted as to marketability. Because the investment securities are not marketable, they are reported at cost and periodically evaluated for impairment based on the ultimate recovery of par value. As of December 31, 2022 and 2021, the Company met all stock ownership requirements set forth by the FRB, FHLB, and CBB.

Loans Receivable

Loans are stated at their principal balance outstanding net of any deferred fees and costs. Interest income on loans is accrued at the contractual rate based on the principal outstanding. Loan origination fees, net of certain direct origination costs, as well as purchased loan premiums and discounts, are deferred and recognized in interest income using the level-yield method. The Company places loans, except for consumer loans, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer installment loans are not placed on nonaccrual, but are charged off when they are three months past due.

Loans are considered impaired when, based on current information, it is probable the Company will not collect all principal and interest payments when due according to contractual terms. Generally, loans are considered impaired once principal or interest payments become ninety days or more past due and they are placed on nonaccrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogeneous credits such as residential real estate and consumer installment loans, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "insignificant delay" in payment (ninety days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided by the collateral. Generally, the Company's impairment on such loans is measured by reference to the fair value of the collateral. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance.

Loans are considered troubled debt restructurings ("TDR") if the borrower is experiencing financial difficulties and a creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, and other actions intended to minimize potential losses. Loans are identified to be restructured when signs of impairment arise, such as borrower interest rate reduction requests, slowness to pay, or when inability to repay becomes evident. The terms being offered are evaluated to determine if they are more liberal than those that would be indicated by policy or industry standards for similar untroubled credits. In situations where the terms or interest rates are considered to be more favorable than industry standards or the current underwriting standards of the Bank, the loan is classified as a TDR. All loans designated as TDRs are considered impaired loans and may be on accrual or nonaccrual status. In instances where the loan has been placed on nonaccrual status, six consecutive months of timely payments are required prior to returning the loan to accrual status.

Allowance for Loan Losses

The allowance for loan losses ("Allowance" or "ALLL") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Allowance is evaluated on a regular basis, but not less than quarterly, by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Allowance consists of specific, general, and unallocated components. The components of the Allowance for loan losses represent an estimation done pursuant to either Accounting Standards Codification ("ASC") Topic 450 "Contingencies," or ASC Topic 310 "Receivables." The specific component relates to loans that are classified as either doubtful or substandard. For such loans that are also classified as impaired, an Allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. These factors may include the nature and volume of the loan portfolio, overall portfolio quality, and current economic conditions that may affect the borrowers' ability to repay the loan.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Premises and equipment, including costs related to developing or obtaining software for internal use, are depreciated on a straight-line basis over their useful lives, which range from three to seven years for furniture, fixtures and equipment to thirty-nine years for buildings and building improvements. Leasehold improvements are amortized over the shorter of their estimated useful economic lives or the lives of the leases. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the remaining life. Interest costs on the original purchase, significant repairs, and construction expenditures relating to Bank premises are capitalized at the Bank's average cost of funds and depreciated over the life of the building.

Other Real Estate Owned

Other real estate owned ("OREO") comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at fair value at the date acquired, less estimated costs of disposal, which establishes a new cost basis. Losses arising at the time of acquisition of such properties are charged against the ALLL. Subsequent write-downs that may be required are expensed when incurred and included in noninterest expense. Gains and losses realized from sales and expenses of operation are included in noninterest expense.

Revenue Recognition

ASC Topic 606 *"Revenue from Contracts with Customers"* does not apply to revenue associated with financial instruments, including revenue from loans and investment securities. Topic 606 is applicable to noninterest revenue such as deposit related fees and debit card fees. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest income included within the scope of Topic 606 is discussed below.

Deposit account fees consist of monthly service fees, insufficient funds fees, check orders, and other deposit related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Insufficient funds fees, check orders, and other deposit 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 deposit account fees is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

ATM fees are generated from the Company's cardholders using other banks' ATMs, the use of the Company's ATMs by non-bank cardholders, and interchange fees earned from usage of the Company's debit cards in payment networks such as MasterCard. Other noninterest income consists primarily of safe deposit box fees, wire transfer fees, official check fees, and rental income. The Company's performance obligation is satisfied, and related revenue recognized when the services are received. Payment of these fees is received immediately in the case of ATM fees, wire transfer fees, and official check fees. With respect to safe deposit box fees and rental income, revenue is recognized on the cash basis, which is materially within the duration of the performance obligation.

Gains/losses on sales of OREO result from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform the obligations under the contract and whether collectability of the transaction price is probable. In determining the gain/loss on sale, the Company adjusts the transaction price and the related gain/loss on sale if a significant financing component is present.

Income Taxes

Income tax expense is based on the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. Under the liability method, deferred income taxes are determined based on the differences between the financial statement carrying amounts and the income tax basis of assets and liabilities and are measured at the enacted tax rates that will be in effect when these differences reverse. A valuation allowance reduces deferred tax assets to the amount expected to be realized. The Company recognizes interest and penalties related to income tax matters in other noninterest expense. The Company does not have any uncertain tax positions that are deemed material and did not recognize any adjustments for unrecognized tax benefits.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $19.0 thousand and $12.0 thousand for the years ended December 31, 2022 and 2021, respectively.

Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") are calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by adjusting the denominator of the basic earnings per share computation for the effects of all dilutive potential common shares outstanding during the period. The dilutive effects of options, warrants, and their equivalents are computed using the treasury stock method.

Comprehensive Income (Loss)

The Company reports comprehensive income (loss) which includes net income (loss), as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of other comprehensive income (loss) is unrealized gains and losses on available-for-sale securities.

Transfers of Financial Assets

The Company accounts for transfers and servicing of financial assets in accordance with ASC Topic 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Stock Based Compensation

Compensation cost is recognized for stock options, restricted stock and other stock awards issued to employees, based on the fair value of those awards at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Subsequent Events

Subsequent events have been evaluated for potential recognition and/or disclosure through the date of the Independent Auditor's Report, which is the date these financial statements were available to be issued. The Company evaluates subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now such matters that will have a material effect on the consolidated financial statements.

2. RECENT ACCOUNTING PRONOUNCEMENTS

During June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Bank adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. Subsequent to adoption, the Bank will record adjustments to its allowance for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of operations.

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using the average charge-off method. In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which generally classifies the loans based on the call report codes. Due to the significant balance of purchased loans, the Bank has further segmented its commercial business and consumer loans based on the seller/servicer of these purchased portfolios. The Bank primarily utilizes the historical loss rate for similarly sized institutions in the State of Maryland, beginning in March 2000, for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: national, regional, and local economic conditions; changes in collateral values; existence of concentrations of credit; changes in the volume and severity of past due and nonaccrual loans; changes in the nature and volume of loans; the quality of the Bank's loan review process; and changes in the experience and depth of lending staff. The Bank's Current Expected Credit Losses ("CECL") implementation process was overseen by the Chief Financial Officer and Chief Credit Officer and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Bank's historical loss experience. During 2022, the Bank calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model. In addition, in early 2023, the Bank engaged a third-party to perform a model validation.

In December 2022, the FASB issued ASU 2022-06, “Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848”. ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance in Topic 848. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (“LIBOR”) would cease being published. In 2021, the UK Financial Conduct Authority delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023.

To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The ASU is effective for all entities upon issuance. The Bank is assessing ASU 2022-06 and its impact on the Bank’s transition away from LIBOR for its loan and other financial instruments.

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.” ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Bank does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, “Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures.” ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Bank is currently assessing the impact that ASU 2022-02 will have on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the FASB issued ASU No. 2021-01 “Reference Rate Reform (Topic 848): Scope.” This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Bank currently does not have loans and other financial instruments that are directly or indirectly influenced by LIBOR.

Recently Adopted Accounting Developments

In May 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity – Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)." The ASU addresses how an issuer should account for modifications or an exchange of freestanding written call options classified as equity that is not within the scope of another Topic. Early adoption is permitted. ASU 2021-04 was effective for the Company on January 1, 2022, but did not have a material impact on the Company.

3. PRIVATE PLACEMENT OF COMMON STOCK

During 2021, the Company conducted a private placement offering. Through the offering, the Company issued 7,692,308 common shares and raised gross proceeds of $10.0 million. After approximately $436.3 thousand in selling expenses, the Company recorded net proceeds of approximately $9.6 million.

4. EMPLOYEE RETENTION TAX CREDIT

The Employee Retention Tax Credit ("ERTC") was established by the Coronavirus Aid, Relief, and Economic ("CARES") Act in March 2020. The ERTC works as a refundable payroll tax credit for entities that meet eligibility requirements based on declines in gross receipts during the pandemic. The Company applied the provisions of Accounting Standards Update 2021-10, Government Assistance, in accounting for the ERTC. The Company has filed for refunds of the ERTC. During 2021, the Company recognized approximately $671.2 thousand in ERTC, which was included in salaries and employee benefits on the consolidated statements of operations and in other assets on the consolidated balance sheets. During 2022, the Company received refunds totaling approximately $219.1 thousand, with the remaining balance of $452.1 thousand included in other assets on the consolidated balance sheets as of December 31, 2022. In January 2023, the Company received an additional refund of approximately $222.7 thousand.

5. INVESTMENT SECURITIES

Investment securities have been classified in the consolidated balance sheets according to management's intent and ability to hold the investment.

Investment securities at December 31, 2022 and 2021 are summarized in the following table (in thousands).

	2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-Sale:				
SBA securitized loan pools	$ 170	$ —	$ 15	$ 155
Mortgage-backed securities	14,674	—	2,209	12,465
Corporate bonds	1,177	—	21	1,156
	$ 16,021	$ —	$ 2,245	$ 13,776

	2021			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-Sale:				
SBA securitized loan pools	$ 212	$ —	$ 2	$ 210
Mortgage-backed securities	17,623	1	334	17,290
Corporate bonds	1,185	37	2	1,220
	$ 19,020	$ 38	$ 338	$ 18,720

At December 31, 2022 and 2021, investment securities with a carrying value of $112.1 thousand and $157.4 thousand, respectively, were pledged to the FRB.

The contractual maturities of investment securities at December 31, 2022 (in thousands) are shown below. The values shown are carrying values. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	Carrying Value	**Due Within One Year**	**Due Between 1-5 Years**	**Due Between 5-10 Years**	**Due After 10 Years**
Available-for-Sale:					
SBA securitized loan pools	$ 155	$ —	$ —	$ —	$ 155
Mortgage-backed securities	12.465	—	—	—	12,465
Corporate bonds	1,156	—	250	906	—
	$ 13,776	$ —	$ 250	$ 906	$ 12,620

As of December 31, 2022, unrealized losses (in thousands) on securities were comprised of the following based on the length of time that the securities have been in a continuous loss position:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
SBA securitized loan pools	$ —	$ —	$ 155	$ 15	$ 155	$ 15
Mortgage-backed securities	21	1	12,444	2,208	12,465	2,209
Corporate bonds	906	21	—	—	906	21
	$ 927	$ 22	$ 12,599	$ 2,223	$ 13,526	$ 2,245

As of December 31, 2021, unrealized losses (in thousands) on securities were comprised of the following based on the length of time that the securities have been in a continuous loss position:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale:						
SBA securitized loan pools	$ 210	$ 2	$ —	$ —	$ 210	$ 2
Mortgage-backed securities	15,500	296	1,511	38	17,011	334
Corporate bonds	—	—	250	2	250	2
	$ 15,710	$ 298	$ 1,761	$ 40	$ 17,471	$ 338

As of December 31, 2022 and 2021, management does not have the intent to sell any of the securities classified as available for sale in the tables above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The decline in the fair market value of the Company's residential mortgage-backed securities and the resultant unrealized loss at December 31, 2022 is the result of an increase in the market rates of interest. Management does not believe any of the securities are impaired due to credit quality. Accordingly, as of December 31, 2022 and 2021, management believes the impairments detailed in the tables above are temporary and no impairment loss has been realized in the Company's consolidated statement of operations.

As of December 31, 2022, there was one Small Business Administration ("SBA") securitized loan pool, twenty-two mortgage-backed securities, and two corporate bonds in an unrealized loss position. As of December 31, 2021, there was one SBA securitized loan pool, nineteen mortgage-backed securities, and one corporate bond in an unrealized loss position.

During the year ended December 31, 2022, the Company did not sell any investment securities. During the year ended December 31, 2021, the Company sold investment securities with a book value of $13.9 million at a realized gain of $0.6 thousand.

6. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company has segregated its loan portfolio into six segments, including construction and land development, 1-4 family residential and home equity, multi-family residential, commercial real estate, commercial business, and consumer. The Company's primary market area is Northeastern Maryland in Cecil County, so exposure to credit risk is significantly affected by economic changes and real estate valuations in this county.

Construction lending primarily involves lending for construction of single-family residences, although the Company does lend funds for the construction of commercial properties and multi-family real estate. The majority of loans that are made for the purpose of constructing residential homes have a loan-to-value ratio of not more than 80%. The Company has financed the construction of non-residential properties on a case by case basis. Loan proceeds are disbursed during the construction phase according to a draw schedule based on the stage of completion. Construction projects are regularly inspected by contracted inspectors or Bank personnel. Construction loans are underwritten on the basis of the estimated value of the property as completed. The Bank originates loans secured by raw land, which are generally granted to developers; these loans have terms of up to three years. The substantial majority of land loans have a loan-to-value ratio not exceeding 75%. Land loans have a higher level of risk than residential mortgage loans because their values tend to fluctuate more frequently and in a more pronounced manner. The Company has sought to minimize this risk by offering such financing primarily to builders and developers to whom the Bank has loaned funds in the past and to persons who have previous experience in such projects.

The Company offers fixed and adjustable conventional mortgage and home equity loans on one-to-four family residential dwellings. Most loans are originated in amounts up to $350.0 thousand on properties located in the Company's primary market area. These loans are generally for terms of 15, 20, and 30 years amortized on a monthly basis with interest and principal due each month. The Company currently retains all mortgage loans it originates. The retention of adjustable rate loans helps reduce the Company's exposure to rising interest rates. However, during periods of rising interest rates, the risk of default on adjustable rate mortgage loans may increase due to the upward adjustment of the interest cost to the borrower.

The Company originates multi-family residential loans in its market area. These loans are generally larger and involve greater risks than one-to-four family residential loans. Because payments on these loans are often dependent on the successful operations and management of the property, repayment of such loans will be heavily dependent on the conditions in the real estate market or the economy. The Company seeks to minimize these risks in a variety of ways, including limiting the size of such loans and obtaining higher down payments. The loans typically have terms of 20 to 40 years, with rate adjustments every one, three, or five years. They generally have imbedded interest rate floors, with no interest rate ceilings, and have no interest rate change limitations.

The Company primarily originates commercial real estate loans in its market area. These loans are generally larger and involve greater risks than one-to-four family residential loans. Because payments on these loans are often dependent on the successful operation or management of the property, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks in a variety of ways, including limiting the size of such loans and obtaining higher down payments. The loans typically have terms of 20 to 40 years, with rate adjustments every one, three, or five years. They generally have imbedded interest rate floors, with no interest rate ceilings, and have no interest rate change limitations. The Company's commercial real estate loans are typically secured by retail or wholesale establishments, motels/hotels, service industries, and industrial or warehouse facilities. During 2011, the Company began making loans under the SBA Section 7(a) program, under which the SBA guarantees up to 75% of loans of up to $5.0 million for the purchase or expansion of small businesses. The Company may sell the guaranteed portion of SBA loans into the secondary market and retain the unguaranteed portion in its portfolio.

The Company offers secured and unsecured commercial business loans and lines of credit to businesses located in its primary market area. Most business loans have a one-year term, while lines of credit can remain open for longer periods. Generally, owners, partners, and officers sign the loan agreement. The security for a business loan depends on the amount borrowed, the business involved, and the strength of the borrower's firm. Commercial business lending entails significant risk, as the payments on such loans generally depend upon the successful operations and management of the business involved.

Although the Company attempts to limit its risk of loss on such loans by limiting the amount and the term, and by requiring personal guarantees of the principals of the business, the risk of loss on these loans is substantially greater than the risk of loss from residential real estate lending. During the years ended December 31, 2022 and 2021, the Company purchased $29.0 million and $84.1 million in commercial loans, respectively.

The Company's consumer loans consist of automobile loans, boat loans, deposit account loans, home improvement loans, and other consumer loans. The loans are generally offered for terms of up to five years at fixed interest rates. Consumer loans are generally originated at higher interest rates than residential mortgage loans because of their higher risk. Repossessed collateral for a defaulted loan may not provide an adequate source of repayment as a result of damage, loss, or depreciation. In addition, collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. During the years ended December 31, 2022 and 2021, the Company purchased $33.7 million and $19.1 million in consumer loans, respectively.

On an ongoing basis, the Company assigns a grade to each of its loans. The internal grades are pass, special mention, substandard, doubtful, and loss. Loans graded pass are high quality loans where the borrower exhibits a strong balance sheet position and good earnings and cash flow history. Loans graded special mention show potential weaknesses that deserve the Company's close attention. If these potential weaknesses are not corrected, they may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Substandard loans are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness that could jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company will sustain some loss if the weaknesses are not corrected. Loans graded doubtful have all the weaknesses inherent in substandard loans with the added characteristic that the weaknesses make collection or liquidation in full highly improbable. Assets graded loss are considered uncollectible and of such little value that their continuance as an asset is not warranted. The classification does not mean the loan has absolutely no recovery value, but that it is not practical to defer charging off the loan even though partial recovery may be effected in the future.

For the years ended December 31, 2022 and 2021, the Company extended the principal and/or interest deferral period on outstanding loan balances of zero and $5.3 million, respectively. As of December 31, 2022 and 2021, loans with a principal balance of zero and $5.3 million, respectively, remain on deferral.

The following table shows the composition of the loan portfolio at December 31, net of deferred loan origination fees and costs.

(In thousands)	**2022**	**2021**
Real estate loans:		
Construction and land development	$ 1,563	$ 2,503
1-4 family residential and home equity	15,497	18,155
Multi-family residential	1,057	1,178
Commercial	22,173	21,889
Total real estate loans	40,290	43,725
Commercial business loans	102,554	100,813
Consumer loans	42,877	18,553
Gross loans	185,721	163,091
Less allowance for loan losses	(1,622)	(1,495)
Net loans	$ 184,099	$ 161,596

In accordance with the standards issued under the Disclosures of Credit Quality of Financing Receivables and the Allowance, the following tables show credit quality indicators, the aging of receivables, and disaggregated balances of loans receivable and the Allowance (in thousands) as of December 31, 2022 and 2021.

Credit Quality Indicators
As of December 31, 2022

	Construction & Land Development	**1-4 Family Residential**	**Multi-Family Residential**	**Commercial Real Estate**	**Commercial Business**	**Consumer**	**Total**
Credit risk profile by internally assigned grade:							
Pass	$588	$14,003	$1,057	$19,902	$101,713	$42,877	$180,140
Special mention	-	1,453	-	1,351	246	-	3,050
Substandard	975	41	-	920	595	-	2,531
Total	$1,563	$15,497	$1,057	$22,173	$102,554	$42,877	$185,721
Credit risk profile based on payment activity:							
Current	$588	$15,456	$1,057	$22,173	$101,662	$42,725	$183,661
Past Due	975	41	-	-	892	152	2,060
Total	$1,563	$15,497	$1,057	$22,173	$102,554	$42,877	$185,721

Credit Quality Indicators
As of December 31, 2021

	Construction & Land Development	**1-4 Family Residential**	**Multi-Family Residential**	**Commercial Real Estate**	**Commercial Business**	**Consumer**	**Total**
Credit risk profile by internally assigned grade:							
Pass	$1,514	$15,852	$1,178	$15,645	$100,702	$18,553	$153,444
Special mention	-	1,895	-	5,900	42	-	7,837
Substandard	989	408	-	344	69	-	1,810
Total	$2,503	$18,155	$1,178	$21,889	$100,813	$18,553	$163,091
Credit risk profile based on payment activity:							
Current	$1,514	$17,827	$1,178	$21,889	$100,683	$18,553	$161,644
Past Due	989	328	-	-	130	-	1,447
Total	$2,503	$18,155	$1,178	$21,889	$100,813	$18,553	$163,091

Age Analysis of Past Due Loans Receivable
As of December 31, 2022

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Total
30-59 Days Past Due	$ -	$ -	$ -	$ -	$ 94	$ 152	$ 246
60-89 Days Past Due	-	-	-	-	226	-	226
Greater Than 90 Days Past Due	975	41	-	-	572	-	1,588
Total Past Due	975	41	-	-	892	152	2,060
Current	588	15,456	1,057	22,173	101,662	42,725	183,661
Total Loans Receivable	$1,563	$15,497	$1,057	$22,173	$102,554	$42,877	$185,721
Recorded Investment > 90 Days and Accruing	-	-	-	-	10	-	10

Age Analysis of Past Due Loans Receivable
As of December 31, 2021

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Total
30-59 Days Past Due	$ -	$ 24	$ -	$ -	$ 130	$ -	$ 154
60-89 Days Past Due	-	-	-	-	-	-	-
Greater Than 90 Days Past Due	989	304	-	-	-	-	1,293
Total Past Due	989	328	-	-	130	-	1,447
Current	1,514	17,827	1,178	21,889	100,683	18,553	161,644
Total Loans Receivable	$2,503	$18,155	$1,178	$21,889	$100,813	$18,553	$163,091
Recorded Investment > 90 Days and Accruing	-	-	-	-	-	-	-

Allowance for Loan Losses and Recorded Investment in Loans Receivable
For the Year Ended December 31, 2022

	Construction & Land Development	**1-4 Family Residential**	**Multi-Family Residential**	**Commercial Real Estate**	**Commercial Business**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning balance	$4	$43	$-	$49	$1,030	$230	$139	$1,495
Charge-offs	-	(10)	-	-	(852)	-	-	(862)
Recoveries	-	100	-	31	45	1	-	177
Provision	(3)	(111)	-	(68)	1,167	(154)	(19)	812
Ending balance	$1	$22	$-	$12	$1,390	$77	$120	$1,622
Ending balance of allowance individually evaluated for impairment	$-	$-	$-	$-	$115	$-	$-	$115
Ending balance of allowance collectively evaluated for impairment	$1	$22	$-	$12	$1,275	$77	$120	$1,507
Loans receivable:								
Ending balance	$1,563	$15,497	$1,057	$22,173	$102,554	$42,877	$-	$185,721
Ending balance of loans individually evaluated for impairment	$975	$970	$-	$6,880	$595	$-	$-	$9,420
Ending balance of loans collectively evaluated for impairment	$588	$14,527	$1,057	$15,293	$101,959	$42,877	$-	$176,301

Allowance for Loan Losses and Recorded Investment in Loans Receivable
For the Year Ended December 31, 2021

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$4	$57	$-	$116	$57	$1	$403	$638
Charge-offs	-	-	-	-	-	(9)	-	(9)
Recoveries	-	12	-	-	-	4	-	16
Recovery	-	(26)	-	(67)	973	234	(264)	850
Ending balance	$4	$43	$-	$49	$1,030	$230	$139	$1,495
Ending balance of allowance individually evaluated for impairment	$-	$-	$-	$-	$24	$-	$-	$24
Ending balance of allowance collectively evaluated for impairment	$4	$43	$-	$49	$1,006	$230	$139	$1,471
Loans receivable:								
Ending balance	$2,503	$18,155	$1,178	$21,889	$100,813	$18,553	$-	$163,091
Ending balance of loans individually evaluated for impairment	$989	$1,394	$-	$6,468	$69	$-	$-	$8,920
Ending balance of loans collectively evaluated for impairment	$1,514	$16,761	$1,178	$15,421	$100,744	$18,553	$-	$154,171

Loans Receivable on Nonaccrual Status
As of December 31, 2022

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Total
Unpaid Principal Balance	$975	$41	$-	$-	$324	$-	$1,340

Loans Receivable on Nonaccrual Status
As of December 31, 2021

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Total
Unpaid Principal Balance	$989	$305	$-	$-	$69	$-	$1,363

Impaired Loans
As of and For the Year Ended December 31, 2022

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Total
Loans With a Valuation Allowance:							
Recorded Investment	$-	$-	$-	$-	$498	$-	$498
Unpaid Principal Balance	$-	$-	$-	$-	$498	$-	$498
Related Allowance for Loan Losses	$-	$-	$-	$-	$115	$-	$115
Average Recorded Investment	$-	$-	$-	$-	$284	$-	$284
Interest Income Recognized	$-	$-	$-	$-	$12	$-	$12
Loans Without a Valuation Allowance:							
Recorded Investment	$975	$970	$-	$6,880	$97	$-	$8,922
Unpaid Principal Balance	$1,116	$970	$-	$6,880	$98	$-	$9,064
Related Allowance for Loan Losses	$-	$-	$-	$-	$-	$-	$-
Average Recorded Investment	$556	$1,608	$-	$6,674	$49	$-	$8,887
Interest Income Recognized	$-	$59	$-	$406	$-	$-	$465
Totals:							
Recorded Investment	$975	$970	$-	$6,880	$595	$-	$9,420
Unpaid Principal Balance	$1,116	$970	$-	$6,880	$596	$-	$9,562
Related Allowance for Loan Losses	$-	$-	$-	$-	$115	$-	$115
Average Recorded Investment	$556	$1,608	$-	$6,674	$333	$-	$9,171
Interest Income Recognized	$-	$59	$-	$406	$12	$-	$477

Impaired Loans
As of and For the Year Ended December 31, 2021

	Construction & Land Development	1-4 Family Residential	Multi-Family Residential	Commercial Real Estate	Commercial Business	Consumer	Total
Loans With a Valuation Allowance:							
Recorded Investment	$-	$-	$-	$-	$69	$-	$69
Unpaid Principal Balance	$-	$-	$-	$-	$69	$-	$69
Related Allowance for Loan Losses	$-	$-	$-	$-	$24	$-	$24
Average Recorded Investment	$-	$-	$-	$183	$35	$-	$218
Interest Income Recognized	$-	$-	$-	$-	$-	$-	$-
Loans Without a Valuation Allowance:							
Recorded Investment	$989	$1,394	$-	$6,468	$-	$-	$8,851
Unpaid Principal Balance	$1,116	$1,418	$-	$6,468	$-	$-	$9,002
Related Allowance for Loan Losses	$-	$-	$-	$-	$-	$-	$-
Average Recorded Investment	$150	$2,632	$-	$6,385	$-	$-	$9,167
Interest Income Recognized	$-	$51	$-	$252	$-	$-	$303
Totals:							
Recorded Investment	$989	$1,394	$-	$6,468	$69	$-	$8,920
Unpaid Principal Balance	$1,116	$1,418	$-	$6,468	$69	$-	$9,071
Related Allowance for Loan Losses	$-	$-	$-	$-	$24	$-	$24
Average Recorded Investment	$150	$2,632	$-	$6,568	$35	$-	$9,385
Interest Income Recognized	$-	$51	$-	$252	$-	$-	$303

There were zero loans that were restructured during the years ended December 31, 2022 and 2021 that were categorized as troubled debt restructurings. Additionally, there were zero troubled debt restructurings that defaulted during the years ended December 31, 2022 and 2021 that were initially restructured during the twelve months preceding the default.

As of December 31, 2022, there are no residential real estate properties in the process of foreclosure.

In the normal course of banking business, loans are made to officers and directors and their affiliated interests. These loans are made on substantially the same terms and conditions as those prevailing at the time for comparable transactions with outsiders and are not considered to involve more than the normal risk of collectibility. As of December 31, 2022 and 2021, there were no such loans outstanding, both direct and indirect (including guarantees), to directors, their associates, and policy-making officers.

7. OTHER REAL ESTATE OWNED

Other real estate owned activity for the years ended December 31, 2022 and 2021 follows (in thousands):

	2022	2021
Balance at beginning of year	$ 8,143	$ 11,147
Loans transferred to other real estate owned	—	43
Capitalized improvements	39	2,015
Valuation (allowances) recoveries	67	(5)
Gains on sale	1,222	—
Sales of other real estate owned	(9.223)	(5,057)
Balance at end of year	$ 248	$ 8,143

Activity in the valuation allowance for the years ended December 31, 2022 and 2021 follows (in thousands):

	2022	2021
Balance at beginning of year	$ 694	$ 1,083
Valuation recoveries credited to expense	(67)	(122)
Direct write-downs	—	(256)
Reductions from sales of other real estate owned	(557)	(11)
Balance at end of year	$ 70	$ 694

8. PREMISES AND EQUIPMENT AND LEASES

Premises and equipment are summarized by major classifications as of December 31, (in thousands):

	2022	2021
Land	$ 398	$ 398
Buildings and improvements	2,934	2,934
Furniture, fixtures and equipment	2,120	2,078
Leasehold improvements	474	458
	5,926	5,868
Less: accumulated depreciation	3,008	2,855
	$ 2,918	$ 3,013

Depreciation expense for the years ended December 31, 2022 and 2021 was $167.8 thousand and $146.2 thousand, respectively.

The Company's leases have lease terms between two years and ten years, and most of these leases include one or more renewal options for five years or less. At lease commencement, the Company assesses whether it is reasonably certain to exercise a renewal option by considering various economic factors. Options that are reasonably certain of being exercised are factored into the determination of the lease term and related payments are included in the calculation of the right-of-use asset and lease liability. The Company uses its incremental borrowing rate to calculate the present value of lease payments when the interest rate implicit in a lease is not disclosed. None of the Company’s current leases contain variable lease payment terms. The Company accounts for associated non-lease components separately.

The following table presents right-of-use assets, included in other assets on the consolidated balance sheets, and operating lease liabilities, included in other liabilities on the consolidated balance sheets, at December 31, 2022 and 2021 (in thousands):

	2022	2021
Right-of-use assets	$ 599	$ 725
Gross lease liability	$ 670	$ 811
Less: imputed interest	61	79
Present value of lease liability	$ 609	$ 732

The weighted average remaining lease term and weighted average discount rate for operating leases at December 31, 2022 was 6.0 years and 3.15%, respectively. Maturities of the gross operating lease liability at December 31, 2022 are as follows (in thousands):

Year ending December 31:	
2023	$ 140
2024	118
2025	121
2026	124
2027	71
Thereafter	96
Total	$ 670

Rent expense was $185.0 thousand and $200.0 thousand for the years ended December 31, 2022 and 2021, respectively.

9. DEPOSITS

The following is a summary of deposits (in thousands) as of December 31:

	2022			2021		
		Balance	Weighted Average Rate		Balance	Weighted Average Rate
NOW and Money Market accounts	$	45,899	0.29%	$	41,659	0.23%
Savings accounts		28,686	0.15		29,843	0.15
Certificates of deposit		99,013	1.43		111,417	1.13
Checking accounts		33,529	0.00		32,287	0.00
	$	207,127		$	215,206	

A summary of certificate accounts (in thousands) by maturity as of December 31, 2022 follows:

Three months or less	$	7,429
Three months to twelve months		51,404
Twelve months to twenty-four months		32,369
Twenty-four months to thirty-six months		4,155
Thirty-six months to forty-eight months		1,960
Forty-eight months to sixty months		1,696
	$	99,013

The Company's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the maximum deposit insurance amount is $250.0 thousand.

Term certificates include certificates of deposit in denominations of $250.0 thousand or more aggregating approximately $9.5 million and $12.2 million at December 31, 2022 and 2021, respectively.

Officers' and directors' deposit accounts amounted to approximately $260.4 thousand and $193.4 thousand at December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, $2.2 thousand and $1.6 thousand, respectively, in overdrawn demand deposit accounts were reclassified as loans receivable on the consolidated balance sheets.

10. ADVANCES FROM FEDERAL HOME LOAN BANK OF ATLANTA

The Company has a borrowing facility with the FHLB with a total maximum available balance of $47.5 million, subject to the value of collateral pledged. As of December 31, 2022, based on the level of collateral, the Company had credit availability of $5.6 million. As of December 31, 2021, based on the level of collateral, the Company had credit availability of $5.0 million.

Wholly owned first mortgage loans on 1 - 4 family and multifamily dwelling units, commercial real estate loans, and second mortgages and home equity lines of credit with unpaid principal balances of approximately $9.1 million were pledged to the FHLB as collateral on the borrowing facility as of December 31, 2022.

11. ADVANCES FROM FEDERAL RESERVE BANK OF RICHMOND

The Company pledged loans originated under the Small Business Administration's Paycheck Protection Program ("PPP") to the FRB as part of the PPP Liquidity Facility implemented during 2020. The advances, which incurred interest at 0.35%, were repaid in full during 2022. At December 31, 2021, the advances totaled $220.5 thousand.

12. INCOME TAXES

The tax effects (in thousands) of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below:

	2022	**2021**
Deferred tax assets:		
Deferred loan origination fees	$ 57	$ 75
Non-accrual interest	70	55
Loan loss allowance	446	411
Tax basis in excess of carrying value of other real estate owned	123	611
Capital loss carry-forwards	5	5
Net operating loss carry-forwards	16,576	16,631
Allowance for off balance sheet credit losses	169	38
Net unrealized loss (gain) on available-for-sale securities	618	(117)
Other	—	1
Total gross deferred tax assets	18,064	17,710
Deferred tax liabilities:		
FHLB stock dividends	20	20
Tax accumulated depreciation in excess of book	376	365
Total gross deferred tax liabilities	396	385
Net deferred tax assets before valuation allowance	17,668	17,325
Valuation allowance	(8,031)	(17,325)
Net deferred tax assets	$ 9,637	$ —

The Company established a full valuation allowance on its deferred tax assets during the third quarter 2012 in accordance with accounting principles generally accepted in the United States of America. The establishment of the valuation allowance does not preclude the Company from realizing these assets in the future. During the year ended December 31, 2022, the Company reduced the valuation allowance on its deferred tax asset by approximately $9.6 million, with an $8.9 million income tax benefit reflected on the consolidated statement of operations and a $735 thousand credit to accumulated other comprehensive income reflected on the consolidated balance sheet. The analysis of the deferred tax asset valuation allowance considered the Company's return to profitability in December 2021 that continued throughout 2022, as well as the reduction in OREO and removal of the Written Agreement with the Company's regulatory agencies, both of which have a significant impact on the Company's future earnings. The amount of the valuation allowance reduction was determined based on the Company's projected future earnings that can be applied to the loss carry-forwards before their expiration date. The Company has federal loss carry-forwards totaling approximately $61.0 million that begin to expire in 2033.

Income tax expense (benefit) (in thousands) for the years ended December 31 consists of:

	2022	2021
Current income taxes:		
Federal	$ —	$ —
State	—	—
	—	—
Deferred income taxes:		
Federal	(6,703)	—
State	(2,199)	—
	(8,902)	—
Total income tax expense (benefit)	$ (8,902)	$ —

A reconcilement of the difference between the statutory federal income tax rate and the effective tax rate for the Company is shown below as of December 31:

	2022	2021
Federal income tax rate	(21.0)%	(21.0)%
Increase (decrease) resulting from:		
State income taxes, net of federal income tax benefit	(6.5)	(6.5)
Reduction in deferred tax asset valuation allowance	(597.6)	—
Other	—	27.5
Effective tax rate	(625.1)%	0.0%

The Company files income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2019.

13. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below and as defined in the regulations) of total and Tier 1 capital to risk-weighted assets, of Tier 1 capital to average assets, and Common Equity Tier 1 capital. Management believes, as of December 31, 2022 and 2021, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2022, the most recent notification from the Federal Reserve Board categorized the Bank as well capitalized under the framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's categorization. The Bank's actual capital amounts and ratios are also presented in the table below.

	Actual		To be Well Capitalized Under Prompt Corrective Action Rules		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2022:						
Total risk-based capital ratio	$23,877	12.00 %	$19,903	10.00 %	$15,923	8.00 %
Tier 1 risk-based capital ratio	21,640	10.87	15,923	8.00	11,942	6.00
Common equity tier 1 capital ratio	21,640	10.87	12,937	6.50	8,956	4.50
Tier 1 leverage ratio	21,640	9.08	11,917	5.00	9,534	4.00
As of December 31, 2021:						
Total risk-based capital ratio	$21,034	12.11 %	$17,362	10.00 %	$13,890	8.00 %
Tier 1 risk-based capital ratio	19,399	11.17	13,890	8.00	10,417	6.00
Common equity tier 1 capital ratio	19,399	11.17	11,285	6.50	7,813	4.50
Tier 1 leverage ratio	19,399	9.37	10,356	5.00	8,284	4.00

The Written Agreement entered into effective June 29, 2010 among the Company and the Bank, the FRB, and the State of Maryland Commissioner of Financial Regulation was terminated effective November 3, 2022.

14. OFFICER, DIRECTOR, AND EMPLOYEE BENEFIT PLANS

Stock-Based Compensation Plans

In 2021, the Company adopted an Equity Incentive Plan ("Plan") that provides that the Board of Directors or the Compensation Committee of the Board of Directors ("Committee") may grant various types of awards to directors, officers, and employees. Types of awards allowed under the Plan include stock options, restricted stock, restricted stock units, stock appreciation rights, and performance units. The total number of shares of common stock to be reserved and available for awards under the Plan is 1,532,832 shares.

In November 2022, of the 1,532,832 shares available for awards under the Plan, the Board of Directors granted options to purchase up to 1,153,846 shares of common stock of the Company. The exercise price of the options is $1.30 per share. At December 31, 2022, the Bank had $508.1 thousand in unrecognized compensation costs related to stock options. The cost of stock options is amortized in equal annual installments over a five-year period. The expiration date of the stock options is the ten-year anniversary of the date of grant. For the year ended December 31, 2022, the expense related to the stock options is approximately $9.6 thousand.

As of December 31, 2021, no awards had been issued under the Plan.

A summary of the Company's activity under the Plan, and related information for the years ended December 31 follows:

	2022		2021	
	Shares	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Unvested at beginning of year	—	$ —	—	$ —
Cancelled	—	—	—	—
Forfeited	—	—	—	—
Granted	1,153,846	1.30	—	—
Released	—	—	—	—
Unvested at end of year	1,153,846	$ 1.30	—	$ —

Restricted Stock Awards

In November 2022, the Board of Directors approved discretionary restricted stock awards for 1,076,924 shares of common stock. At December 31, 2022, the Bank had approximately $1.4 million in unrecognized compensation costs related to restricted stock awards. The cost of restricted stock awards is amortized in equal annual installments over a five-year period. For the year ended December 31, 2022, the expense related to the restricted stock awards is approximately $27.8 thousand.

A summary of the Company's additional stock-based compensation activity and related information for the years ended December 31 follows:

	2022		2021	
	Shares	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Unvested at beginning of year	—	$ —	—	$ —
Cancelled	—	—	—	—
Forfeited	—	—	—	—
Awarded	1,076,924	1.30	—	—
Released	—	—	—	—
Unvested at end of year	1,076,924	$ 1.30	—	$ —

Profit Sharing Plan

The Bank established a defined contribution 401(k) profit sharing plan ("401(k)") for the benefit of its employees. The 401(k) covers all full-time employees who meet certain eligibility requirements as to age and length of service. Contributions to the 401(k) are based on the amounts contributed by employees. The employees may contribute a percentage of their annual compensation to the 401(k). The Company makes a discretionary matching contribution equal to a uniform percentage of the amount of the employees' contribution. In applying the matching contribution, only employee salary deductions up to 2.0% will be considered. The Company may also make a discretionary profit sharing contribution to the 401(k) as determined by the Board of Directors. For the years ended December 31, 2022 and 2021, the Company's expense related to the 401(k) was $34.2 thousand and $29.0 thousand, respectively.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company has various outstanding credit commitments which are properly not reflected in the financial statements. These commitments are made to satisfy the financing needs of the Company's clients. The associated credit risk is controlled by subjecting such activity to the same credit and quality controls that exist for the Company's lending and investing activities. The commitments involve diverse business and consumer customers and are generally well collateralized. Management does not anticipate that losses, if any, which may occur as a result of these commitments, would materially affect the stockholders' equity of the Company. Since a portion of the commitments have some likelihood of not being exercised, the amounts do not necessarily represent future cash requirements.

Loan and credit line commitments, excluding unused portions of home equity lines of credit, totaled approximately $7.5 million at December 31, 2022, and $3.0 million at December 31, 2021. These commitments are contingent upon continuing customer compliance with the terms of the agreement.

Unused portions of home equity lines at year-end amounted to approximately $2.0 million in 2022 and $4.0 million in 2021. The Bank's home equity line accounts are secured by the borrower's residence.

Irrevocable letters of credit, totaling $1.2 million at December 31, 2022 and $1.3 million at December 31, 2021, are obligations to make payments under certain conditions to meet contingencies related to customers' contractual agreements. They are primarily used to guarantee a customer's contractual and/or financial performance and are seldom exercised.

The Bank has established an allowance for off balance sheet credit exposures. The allowance is established as losses are estimated to have occurred through a loss for off balance sheet credit exposures charged to earnings. Losses are charged against the allowance when management believes the required funding of these exposures is uncollectible. While this evaluation is completed on a regular basis, it is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. At December 31, 2022 and 2021, the allowance was approximately $615.1 thousand and $140.0 thousand, respectively, and is included in other liabilities on the consolidated balance sheets.

Activity in the allowance for the years ended December 31, 2022 and 2021 follows (in thousands):

	2022	2021
Balance at beginning of year	$ 140	$ 140
Provision for off balance sheet credit losses	550	—
Cash disbursements to offset the credit exposures	(75)	—
Balance at end of year	$ 615	$ 140

16. EARNINGS (LOSS) PER SHARE

In the following table, basic earnings (loss) per share is derived by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding and does not include the effect of any potentially dilutive common stock equivalents. The weighted average number of shares used in the calculation of basic earnings per share includes unvested restricted stock awards, as they contain voting and dividend rights. The diluted earnings per share are derived by dividing net income (loss) by the weighted average number of shares outstanding, adjusted for the dilutive effect if agreements to issue common stock were exercised or converted into common stock. The dilutive effect of unvested stock options and restricted stock awards is computed using the treasury stock method. No shares were dilutive for the years ended December 31, 2022 and 2021.

The calculation of earnings (loss) per common share for the years ended December 31 follows (in thousands, except per share data):

	2022	2021
BASIC:		
Net income (loss) available to common stockholders	$ 10,326	$ (2,936)
Average common shares outstanding	15,578	10,461
Basic earnings (loss) per share	$ 0.66	$ (0.28)
DILUTED:		
Net income (loss) available to common stockholders	$ 10,326	$ (2,936)
Average common shares outstanding	15,578	10,461
Dilutive stock adjustment	—	—
Average common shares outstanding – diluted	15,578	10,461
Diluted earnings (loss) per share	$ 0.66	$ (0.28)

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 825 *Disclosure About Fair Value of Financial Instruments* requires that the Company disclose estimated fair values for both its on and off-balance sheet financial instruments.

Current accounting pronouncements require disclosure of the estimated fair value of financial instruments. Fair value is defined 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. With the exception of certain marketable securities, the Company’s financial instruments are not readily marketable and market prices do not exist. Since negotiated prices in illiquid markets depend upon the then present motivations of the buyer and seller, the assumption could be made the actual sales prices could reasonably vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, the changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. Finally, the Company expects to retain substantially all assets and liabilities measured at fair value to their maturity or call date. Accordingly, the fair values disclosed herein are unlikely to represent the instruments’ liquidation values, and do not with the exception of securities, loans, time deposits, and borrowings, consider exit costs since they cannot be reasonably estimated.

Accounting principles establish a three-level valuation hierarchy for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization with the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices for identical assets and liabilities in active markets.

Level 2 Inputs to the valuation methodology included quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The estimated fair values of financial instruments (in thousands) at December 31, 2022 follow:

			Fair Value Measurements at Reporting Date Using		
	Carrying Value	**Fair Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets:					
Cash and cash equivalents	$ 17,661	$ 17,661	$ 17,661	$ —	$ —
Investment securities:					
Available-for-sale	13,766	13,766	—	13,766	—
Loans receivable, net	184,099	180,150	—	—	180,150
Restricted investment securities	1,009	1,009	—	1,009	—
Accrued interest receivable	907	907	—	907	—
Financial liabilities:					
Deposits	207,127	176,035	—	—	176,035
Accrued interest payable	26	26	—	26	—

The estimated fair values of financial instruments (in thousands) at December 31, 2021 follow:

			Fair Value Measurements at Reporting Date Using		
	Carrying Value	**Fair Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets:					
Cash and cash equivalents	$ 38,922	$ 38,922	$ 38,922	$ —	$ —
Investment securities:					
Available-for-sale	18,720	18,720	—	18,720	—
Loans receivable, net	161,596	166,647	—	—	166,647
Restricted investment securities	723	723	—	723	—
Accrued interest receivable	694	694	—	694	—
Financial liabilities:					
Deposits	215,206	215,450	—	—	215,450
Advances from Federal Reserve Bank of Richmond	221	221	—	221	—
Accrued interest payable	2	2	—	2	—

18. ASSETS MEASURED AT FAIR VALUE

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured using independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

Accounting principles permit the measurement of certain assets at fair value on a nonrecurring basis. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following table summarizes the Company's assets (in thousands) that were measured at fair value on a nonrecurring basis during the period.

	Fair Value Measurements at Reporting Date Using			
Description	Carrying Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Investment securities available-for-sale				
SBA securitized loan pools	$ 155	$ —	$ 155	$ —
Mortgage-backed securities	12,465	—	12,465	—
Corporate bonds	1,156	—	1,156	—
Total investment securities available-for-sale	$ 13,776	$ —	$ 13,776	$ —
December 31, 2021				
Investment securities available-for-sale				
SBA securitized loan pools	$ 210	$ —	$ 210	$ —
Mortgage-backed securities	17,290	—	17,290	—
Corporate bonds	1,220	—	1,220	—
Total investment securities available-for-sale	$ 18,720	$ —	$ 18,720	$ —

The Bank may be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis. These adjustments to fair value usually result from application of lower of cost or market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis at December 31, 2022 and 2021, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the assets. For other real estate owned and impaired loans, Level 3 assets are valued at the lesser of the unpaid principal balance of the loan, or the appraised value of the underlying collateral, net of estimated disposal costs, as determined by a third-party appraiser.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: The Bank does not record loans at fair value on a recurring basis; however, from time to time a loan is considered impaired and a specific reserve is established. Loans for which the probability exists the payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as impaired, management measures the extent of any loss. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flow. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investment in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When an appraised value is not available or management determines the fair value of collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

Other real estate owned: The carrying amount of real estate owned by the Bank resulting from foreclosure is estimated at the fair value of the real estate based on an observable market price or a current appraised value less selling costs. If carried at market price based on appraised value using observable market data, it is recorded as nonrecurring Level 2. When an appraised value is not available or is not current, or management determines the fair value of the real estate is further impaired below the appraised value or there is no observable market price, the Bank records the real estate as nonrecurring Level 3.

(In thousands) Description	Carrying Value	Fair Value Measurements at Reporting Date Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Other real estate owned:				
Construction & Land Development	$196	$—	$—	$196
1-4 Family Residential	52	—	—	52
Total	$248	$—	$—	$248
Impaired loans:				
Commercial Business	$383	$—	$—	$383
Total	$383	$—	$—	$383
December 31, 2021				
Other real estate owned:				
Construction & Land Development	$7,105	$—	$—	$7,105
1-4 Family Residential	246	—	—	246
Commercial Real Estate	792	—	—	792
Total	$8,143	$—	$—	$8,143
Impaired loans:				
Commercial Business	$45	$—	$—	$45
Total	$45	$—	$—	$45

	Fair Value Measurements			
Description	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Average Discount**
December 31, 2022				
Other real estate owned:				
Construction & Land Development	$196	Sales Comparison Approach	Adjustment for differences in comparable sales and age	26%
1-4 Family Residential	52	Sales Comparison Approach	Adjustment for differences in comparable sales and age	0%
Impaired loans:				
Commercial Business	383	Sales Comparison Approach	Adjustment for differences in comparable sales and age	19%
December 31, 2021				
Other real estate owned:				
Construction & Land Development	$7,105	Sales Comparison Approach	Adjustment for differences in comparable sales and age	6%
1-4 Family Residential	246	Sales Comparison Approach	Adjustment for differences in comparable sales and age	17%
Commercial Real Estate	792	Sales Comparison Approach	Adjustment for differences in comparable sales and age	22%
Impaired loans:				
Commercial Real Estate	45	Sales Comparison Approach	Adjustment for differences in comparable sales and age	12%

19. CECIL BANCORP, INC. - HOLDING COMPANY ONLY FINANCIAL INFORMATION

The following condensed balance sheets as of December 31, 2022 and 2021 and condensed statements of operations and cash flows for the years then ended for Cecil Bancorp, Inc. should be read in conjunction with the consolidated financial statements and notes thereto.

BALANCE SHEETS (in thousands)

ASSETS

	2022	2021
Cash	$ 292	$ 309
Other assets	3	3
Investment in subsidiaries	28,153	18,982
Total assets	$ 28,448	$ 19,294
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total liabilities	$ —	$ —
Stockholders' equity:		
Total stockholders' equity	28,448	19,294
Total liabilities and stockholders' equity	$ 28,448	$ 19,294

STATEMENTS OF OPERATIONS

(in thousands)

	Years Ended December 31,	
	2022	2021
Income:		
Equity in undistributed earnings (loss) of subsidiaries	$ 10,343	$ (2,924)
Operating expenses:		
Other	17	12
Total operating expenses	17	12
Net income (loss)	$ 10,326	$ (2,936)

STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 10,326	$ (2,936)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in undistributed (earnings) loss of subsidiaries	(10,343)	2,924
Net change in other assets and other liabilities	—	(3)
Net cash used in operating activities	(17)	(15)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in bank subsidiary	—	(9,350)
Net cash used in investing activities	—	(9,350)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	—	9,561
Net cash provided by financing activities	—	9,561
NET INCREASE (DECREASE) IN CASH	(17)	196
CASH AT BEGINNING OF PERIOD	309	113
CASH AT END OF PERIOD	$ 292	$ 309