# M&F Bancorp, Inc.

# 2021

# ANNUAL REPORT

**2021 Annual Report**

## TABLE OF CONTENTS



This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and the Bank. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and the Bank and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate" and "believe," variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Effects of COVID-19 may negatively impact significant estimates and exacerbate a vulnerability due of certain concentrations (e.g., business concentration in a market or geographical area severely affected by effects of COVID-19). Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements.

**Chairman and President's Letter**

To Our Fellow Shareholders:

2021 was the best year in the history of our organization! We really stepped up to meet the challenges of the second year of the pandemic. We are incredibly proud of how M&F Bancorp, Inc., (the "Company") and M&F Bank (the "Bank") responded to serve our customers during a very challenging year. As we close this second year of unprecedented disruption, we believe that the Company is stronger, growing and well-positioned for the future. Our associates continued to operate our branch locations with excellence. Some of our associates worked from home and continued to advance our strategy and support our thousands of customers and businesses, who have placed their trust in us. We are proud to say that our associates did this without missing a beat.

Although we experienced two consecutive years in a global pandemic, we are pleased to report that the Company experienced an 18.12% or $56.0 million increase in total asset growth in 2021 over 2020. This was the second year of consecutive significant increases in asset growth in the history of the Company. During the year, our total deposits increased 12.92% or $36.3 million due to the tremendous support from across the nation and region. This support came from businesses and individuals both large and small seeking to support our mission of providing credit and financial services to low and moderate income areas within our footprint.

We are pleased to report that we delivered net income available to common stockholders of $2.7 million in 2021 versus $1.1 million in 2020. This is the highest earnings total in the history of the Company. We are pleased to note that this is the third consecutive year that we have generated over $1.0 million in earnings. We were successful in executing our strategic plan to provide access to capital to small and medium size businesses in all the markets served in 2021. We are pleased to report that we participated in round two of the Paycheck Protection Program, which generated over $35.0 million in needed loans to 642 businesses and provided funding in 81 different markets in North Carolina. The Company's loan delinquency rate was 0.51% and has been significantly under 1.00% for the past four years.

2021 was the "year of capital" for the Company. The four largest banks in the U.S. (JP Morgan, Bank of America, Wells Fargo and Citi Bank) invested $17.5 million in new capital into the Company. In January of 2022, we received some great news from the U.S. Treasury that we were allocated $76.0 million in new capital through the Emergency Capital Investment Program. These investments reflect support for the Company's mission to provide needed capital and financial services to communities served all across North Carolina.

***Some key highlights over the past year:***

- Total assets increased 18.12% or $56.0 million in 2021 over 2020
- We resumed payment of quarterly dividends to our shareholders
- Money Service Business non-interest income topped $2.0 million
- JP Morgan Empower Share Class Fund has over $1.0 billion in assets under management, which generated fee income for the Bank
- Our customers have access to over 13 thousand Wells Fargo ATMs free of charge

As noted above, we had a number of major highlights in 2021. Total loans were $231.9 million as of December 31, 2021 versus $187.5 million in 2020. Total deposits were $317.0 million as of December 31, 2021 versus $280.7 million as of December 31, 2020. Total assets as of December 31, 2021 were $365.1 million versus $309.1 million as of December 31, 2020. We finished the year with $42.9 million in capital versus $23.5 million in 2020. The Company's capital ratios are extremely strong going into this transformational year for the Company and we believe that it will allow us to fund loan and deposit growth.

In closing, 2021 was a great year for the Company in terms of earnings performance, increased capital and asset growth, and dividend performance. Finally, we are extremely proud of our Company's associates, management team, and Board of Directors for all their efforts this past year.

Thank you for your continued support.

Sincerely,

| | |
|---|---|
| James A. Stewart | James H. Sills, III |
| Chairman of the Board | President and Chief Executive Officer |

## Independent Auditor's Report

To the Board of Directors and Shareholders
M&F Bancorp, Inc. and Subsidiary
Durham, North Carolina

**Opinion**

We have audited the consolidated financial statements of M&F Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, 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, 2021 and 2020, 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 within one year after the date that the financial statements are available to be issued, when applicable).

**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.

Elliott Davis, PLLC

Raleigh, North Carolina
March 2, 2022

## M&F BANCORP, INC. AND SUBSIDIARY

### CONSOLIDATED BALANCE SHEETS

| *(Dollars in thousands except for share and per share data)* | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | $ 16,799 | $ 20,297 |
| Interest-bearing cash | 24,499 | 23,680 |
| Total cash and cash equivalents | 41,298 | 43,977 |
| Interest-bearing time deposits | 3,201 | 4,189 |
| Investment securities available-for-sale, at fair value | 72,326 | 57,017 |
| Other invested assets | 177 | 262 |
| Loans, net of unearned income and deferred fees | 231,908 | 187,524 |
| Allowance for loan losses ("ALLL") | (2,272) | (2,673) |
| Loans, net | 229,636 | 184,851 |
| Interest receivable | 870 | 867 |
| Bank premises and equipment, net | 2,302 | 2,589 |
| Cash surrender value of bank-owned life insurance | 9,782 | 9,508 |
| Deferred tax assets and taxes receivable, net | 2,149 | 3,025 |
| Operating lease right-of-use ("ROU") asset | 946 | 1,116 |
| Other assets | 2,376 | 1,665 |
| **TOTAL ASSETS** | $ 365,063 | $ 309,066 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Deposits: | | |
| Interest-bearing deposits | $ 210,363 | $ 188,385 |
| Noninterest-bearing deposits | 106,658 | 92,356 |
| Total deposits | 317,021 | 280,741 |
| Other borrowings | 130 | 204 |
| Operating lease liabilities | 985 | 1,148 |
| Other liabilities | 4,025 | 3,510 |
| Total liabilities | 322,161 | 285,603 |
| **COMMITMENTS AND CONTINGENCIES (Note 17)** | | |
| Stockholders' equity: | | |
| Series C Junior Participating Preferred Stock- $0.01 par value, 21,000 shares authorized, no shares issued or outstanding | - | - |
| Series D Noncumulative Perpetual Preferred Stock- $0.01 par value, 20,000 and no shares authorized at December 31, 2021 and 2020, respectively; 17,302 and no shares issued and outstanding at December 31, 2021 and 2020, respectively | 17,302 | - |
| Common stock, no par value, 10,000,000 shares authorized at December 31, 2021 and 2020; issued and outstanding: 1,979,975 and 1,940,375 at December 31, 2021 and 2020, respectively | 8,823 | 8,614 |
| Retained earnings | 18,910 | 16,336 |
| Accumulated other comprehensive loss | (2,133) | (1,487) |
| Total stockholders' equity | 42,902 | 23,463 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 365,063 | $ 309,066 |

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| *(Dollars in thousands except for share and per share data)* | For the Years Ended December 31, 2021 | 2020 |
|---|---|---|
| **Interest income:** | | |
| Loans, including fees | $ 10,748 | $ 9,242 |
| Investment securities available-for-sale, including dividends | | |
| Taxable | 735 | 720 |
| Tax-exempt | 13 | - |
| Interest-bearing time deposits | 74 | 96 |
| Other | 47 | 72 |
| Total interest income | 11,617 | 10,130 |
| **Interest expense:** | | |
| Deposits | 331 | 955 |
| Borrowings | 1 | 3 |
| Total interest expense | 332 | 958 |
| Net interest income | 11,285 | 9,172 |
| Less provision for (reversal of ) loan losses | (373) | 700 |
| Net interest income after provision for (reversal of) loan losses | 11,658 | 8,472 |
| **Noninterest income:** | | |
| Service charges on deposit accounts | 822 | 850 |
| Other service charges, commissions and fees | 642 | 472 |
| Money service business income | 2,072 | 1,087 |
| Commissions from sales of financial products | 240 | 10 |
| Rental income | 4 | 8 |
| Cash surrender value of life insurance | 274 | 265 |
| Realized gain on sale of PPP loans | - | 186 |
| Net realized gains on sales of investment securities available-for-sale | - | 25 |
| Net realized loss on disposal of Bank premises and equipment | - | (4) |
| Gains on sales of repossessed assets | 29 | - |
| Other income | 94 | 311 |
| Total noninterest income | 4,177 | 3,210 |
| **Noninterest expense:** | | |
| Salaries and employee benefits | 6,863 | 5,528 |
| Occupancy and equipment | 1,427 | 1,268 |
| Directors' fees | 153 | 140 |
| Money service business expenses | 578 | 318 |
| Marketing | 264 | 293 |
| Professional fees | 663 | 578 |
| Information technology | 1,290 | 1,124 |
| FDIC deposit insurance | 82 | 143 |
| Other real estate owned ("OREO") expenses (income), net | 1 | (86) |
| Delivery expenses | 131 | 121 |
| Interchange expenses | 309 | 269 |
| Other | 465 | 642 |
| Total noninterest expense | 12,226 | 10,338 |
| Income before income tax expense | 3,609 | 1,344 |
| Income tax expense | 826 | 294 |
| **Net income** | 2,783 | 1,050 |
| Preferred stock dividends | (90) | - |
| Net income available to common stockholders | $ 2,693 | $ 1,050 |
| **Basic and diluted income per share of common stock:** | | |
| Basic and Diluted | $ 1.36 | $ 0.51 |
| **Weighted average shares of common stock outstanding:** | | |
| Basic and Diluted | 1,975,418 | 2,047,623 |

*See notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| *(Dollars in thousands)* | For the Years Ended December 31, 2021 | 2020 |
|---|---|---|
| Net income | $ 2,783 | $ 1,050 |
| Other comprehensive income (loss): | | |
| Investment securities: | | |
| Unrealized holding gains (losses) on investment securities available-for-sale | (1,405) | 847 |
| Tax effect | 322 | (195) |
| Reclassification adjustments for net realized gains | - | (25) |
| Tax effect | - | 6 |
| Net of tax amount | (1,083) | 633 |
| Defined benefit pension plans: | | |
| Net actuarial gains (losses) | 567 | (357) |
| Tax effect | (130) | 82 |
| Net of tax amount | 437 | (275) |
| Other comprehensive income (loss), net of tax | (646) | 358 |
| Comprehensive income | $ 2,137 | $ 1,408 |

*See notes to consolidated financial statements*

## M&F BANCORP, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**For the Years Ended December 31, 2021 and 2020**

| *(Dollars in thousands except for share data)* | **Number of Shares** | **Common Stock** | **Preferred Stock** | **Retained Earnings** | **Accumulated Other Comprehensive Loss** | **Total** |
|---|---|---|---|---|---|---|
| **Balances as of December 31, 2019** | 2,031,337 | $ 8,732 | $ - | $ 15,286 | $ (1,845) | $ 22,173 |
| Net income | - | - | - | 1,050 | - | 1,050 |
| Issuance of common stock | 95,078 | 500 | - | - | - | 500 |
| Redemption of common stock | (186,040) | (618) | - | - | - | (618) |
| Other comprehensive loss, net of tax | - | - | - | - | 358 | 358 |
| **Balances as of December 31, 2020** | 1,940,375 | $ 8,614 | $ - | $ 16,336 | $ (1,487) | $ 23,463 |
| Net income | - | - | - | 2,783 | - | 2,783 |
| Issuance of common stock | 39,600 | 198 | - | - | - | 198 |
| Issuance of preferred stock | - | - | 17,302 | - | - | 17,302 |
| Stock-based compensation | - | 11 | - | - | - | 11 |
| Other comprehensive income, net of tax | - | - | - | - | (646) | (646) |
| Dividends declared on Series D Noncumulative Perpetual Preferred Stock | - | - | - | (90) | - | (90) |
| Dividends declared on common stock ($0.02 per share) | - | - | - | (119) | - | (119) |
| **Balances as of December 31, 2021** | 1,979,975 | $ 8,823 | $ 17,302 | $ 18,910 | $ (2,133) | $ 42,902 |

*See notes to consolidated financial statements*

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *(Dollars in thousands)* | For the Years Ended December 31, 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 2,783 | $ 1,050 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for (reversal of) loan losses | (373) | 700 |
| Depreciation and amortization | 441 | 421 |
| Gains on dispositions of repossessed assets | (29) | - |
| Amortization of discounts/premiums on investment securities available-for-sale, net | 586 | 497 |
| Net gains on sales of investment securities available-for-sale | - | (25) |
| Increase in cash surrender value of bank-owned life insurance | (274) | (265) |
| Net losses on disposal of Bank premises and equipment | - | 4 |
| Gain on sale of OREO | - | (85) |
| Proceeds from sale of PPP loans | - | 8,756 |
| Gain on sale of PPP loans | - | (186) |
| Net changes in: | | |
| Accrued interest receivable and other assets | 840 | 399 |
| Other liabilities | 603 | (243) |
| **Net cash provided by operating activities** | 4,577 | 11,023 |
| **Cash flows from investing activities:** | | |
| Activity in available for sale securities: | | |
| Sales | - | 9,013 |
| Maturities and calls | - | 11,472 |
| Principal collections | 14,530 | 11,860 |
| Purchases | (31,830) | (45,357) |
| Proceeds from maturities of interest-bearing time deposits | 1,974 | 741 |
| Purchases of interest-bearing time deposits | (986) | (494) |
| Federal Home Loan Bank ("FHLB") stock purchases | - | (8) |
| FHLB stock redemptions | 85 | - |
| Net increase in loans | (44,412) | (14,487) |
| Purchases of Bank premises and equipment | (154) | (405) |
| Lease buyout | - | (3) |
| Proceeds from dispositions of repossessed assets | 29 | - |
| Proceeds from sale of OREO | - | 85 |
| **Net cash used in investing activities** | (60,764) | (27,583) |
| **Cash flows from financing activities:** | | |
| Net increase in deposits | 36,280 | 42,713 |
| Proceeds from other borrowings | 498 | 357 |
| Repayments of other borrowings | (572) | (740) |
| Redemption of common stock | - | (618) |
| Issuance of Series D preferred stock, net of issuance costs | 17,302 | - |
| Issuance of common stock | 198 | 500 |
| Stock-based compensation | 11 | - |
| Cash dividends | (209) | - |
| **Net cash provided by financing activities** | 53,508 | 42,212 |
| **Net increase (decrease) in cash and cash equivalents** | (2,679) | 25,652 |
| **Cash and cash equivalents as of the beginning of the period** | 43,977 | 18,325 |
| **Cash and cash equivalents as of the end of the period** | $ 41,298 | $ 43,977 |

*See notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED**

| *(Dollars in thousands)* | For the Years Ended December 31, 2021 | 2020 |
|---|---|---|
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:** | | |
| Cash paid (received) during period for: | | |
| Interest | $ 351 | $ 1,057 |
| Income taxes | (242) | (587) |
| **Noncash Transactions:** | | |
| Net unrealized gains on investment securities available-for-sale, net of deferred income tax | (1,083) | 633 |
| Adjustments related to defined benefit plans, net of deferred income tax | 437 | (275) |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Nature of Operations*** - M&F Bancorp, Inc. (the "Company") is a bank holding company, and the parent company of Mechanics and Farmers Bank (the "Bank"), a state chartered commercial bank incorporated in North Carolina ("NC") in 1907, which began operations in 1908. The Bank has seven branches in NC: two in Durham, two in Raleigh, and one each in Charlotte, Greensboro and Winston-Salem. The Company, headquartered in Durham, operates as a single business segment and offers a wide variety of consumer and commercial banking services and products almost exclusively in NC.

***Basis of Presentation*** - The Consolidated Financial Statements include the accounts and transactions of the Company and the Bank, the wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

***Recent Developments*** - On December 27, 2020, the Economic Aid Act was signed into law, which included another round of Paycheck Protection Program ("PPP") funding administered by the U.S. Small Business Administration ("SBA"). The Company began originating the new round of PPP loans in January 2021. During the year ended December 31, 2021, the Company funded $34.6 million in PPP loans, while also processing $22.5 million in forgiveness payments related to both 2020 and 2021 PPP loan originations.

***Cash and Cash Equivalents*** - The cash and cash equivalents are comprised of highly liquid short-term investments that are carried at cost, which approximates market value, and cash held at the Federal Reserve Bank of Richmond ("FRB"). The Board of Governors of the Federal Reserve (the "Federal Reserve") and banking laws in NC require banks to maintain average balances in relation to specific percentages of their customers' deposits as a reserve. As of December 31, 2021 and 2020, the Bank, held deposits as shown:

| *(Dollars in thousands)* | Federal Reserve Required Average | Excess | Bank Federal Funds Sold | Core Deposits | Total |
|---|---|---|---|---|---|
| December 31, 2021 | $ - | $ 24,469 | $ - | $ 16,829 | $ 41,298 |
| December 31, 2020 | $ - | $ 21,591 | $ - | $ 22,386 | $ 43,977 |

***Interest-bearing Time Deposits in Banks*** - Interest-bearing time deposits in banks mature within five years and are carried at cost.

***Investment Securities*** - Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity securities" and reported at amortized cost. Debt securities that are bought and held principally for the purpose of selling in the near term are classified as "trading securities" and reported at fair value with unrealized gains and losses included in consolidated earnings. Debt securities not classified as either held to maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value with unrealized gains and losses excluded from consolidated earnings and reported as a separate component of consolidated stockholders' equity and as an item of other comprehensive income. The unrealized gain or loss of a security is identified and removed from other comprehensive income when a security is sold, matured, or called. Equity securities are reported at fair value and changes in fair value are included in consolidated earnings. The initial classification of securities is determined at the date of purchase. Gains and losses on investment securities, computed based on specific identification of the adjusted cost of each security, are included in noninterest income. Premiums and discounts on debt securities are recognized in interest income using the interest method over the period to maturity, or when the debt securities are called.

Declines in the fair value of individual held to maturity and available-for-sale securities below their costs that are other-than-temporary result in write-downs of the individual securities to their respective fair value. There were no credit write-downs in consolidated earnings as realized losses. Transfers of securities between classifications, of which there were none in 2021 or 2020, are accounted for at fair value. No securities were classified as trading or held to maturity as of December 31, 2021 and 2020.

***Other Invested Assets*** - Other invested assets are investments in FHLB stock carried at historical cost, as adjusted for any other-than-temporary impairment loss. As of December 31, 2021 and 2020, the Company's investments in FHLB stock were $0.2 million and $0.3 million, respectively.

***Loans*** - Loans are stated at the amount of unpaid principal, net of deferred loan origination fees and costs. Loans (net) are reduced by the ALLL. Nonrefundable loan fees associated with the origination or acquisition of loans are deferred and recognized as an adjustment of the loan yield over the life of the loan using the effective interest method. Interest on loans is accrued on the daily balances of unpaid principal outstanding. Interest income is accrued and credited to income only if deemed collectable. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded in income when collected.

***Non-Performing Loans and Leases*** - Generally, all classes of loans and leases are placed on non-accrual status upon becoming contractually past due 90 days or more as to principal or interest (unless loans are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), or where substantial doubt about full repayment of principal or interest is evident.

When a loan or lease is placed on non-accrual status, regardless of class, the accrued and unpaid interest receivable is reversed, and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. Loans may be returned to accrual status when all principal and interest amounts contractually due (including any arrearages) are reasonably assured of repayment within a reasonable period, the borrower has demonstrated payment performance for a minimum of six months in accordance with the original or revised contractual terms of the loan, and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For closed-end consumer loans, the entire outstanding balance of the loan is charged-off during the month that the loan becomes 120 days past due as to principal or interest. Consumer loans with non- real estate collateral are written down to the value of the collateral, less estimated costs to sell, if repossession of collateral is assured and in process. For residential mortgage and home equity loan classes, a partial charge-off is recorded at 120 days past due as to principal or interest for the amount that the loan balance exceeds the fair value of the collateral less estimated costs to sell.

***Impaired Loans*** - A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan, including scheduled interest payments. Impaired loans include all classes of commercial non-accruing loans and Troubled Debt Restructurings ("TDRs").

For all classes of commercial loans, a quarterly evaluation of specific individual commercial borrowers with identified weaknesses is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk.

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs and unamortized premiums or discounts), impairment is recognized by creating or adjusting an existing allocation of the ALLL, or by recording a partial charge-off of the loan to its estimated fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

***Loans Modified as a TDR*** - Loans are considered to have been modified as a TDR when the Company makes certain concessions to a borrower experiencing financial difficulty. Concessions to the borrower at modification may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a TDR remains on non-accrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period.

Generally accepted accounting principles (“GAAP”) does not provide specific guidance on when a loan may be returned to accrual status. Federal banking regulators have provided guidance that interest on impaired loans, including TDRs, should only be recorded when there has been a sustained period of repayment performance, the loan is well secured, and collection under any revised terms is assessed as probable. The Company follows this Federal banking regulatory guidance.

No loans coded as TDR were charged-off or removed from TDR status during the years ended December 31, 2021 and 2020. Factors influencing the decision to remove the TDR status following an underwriting and loan modification subsequent to the initial TDR determination date included: 1) the borrowers are no longer experiencing financial difficulties, and 2) the terms of the loan are similar to market interest rates for new debt with similar credit risk and characteristics, and 3) the terms are no less favorable to the Company than those it would offer for such new debt, i.e., no concession granted. See note 6 for additional details on TDRs.

***Income Recognition on Impaired and Non-accrual Loans*** - Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity, or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as non-accrual. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if full repayment of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period of time, and the borrower has demonstrated payment performance for a minimum of six months in accordance with the contractual terms involving payments of cash or cash equivalents.

In the case where a non-accrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the remaining loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charged off balances have been fully recovered.

***Reserve for Credit Losses*** - The Company's reserve for credit losses is comprised of two components, the allowance for loan losses and the reserve for unfunded commitments (the "Unfunded Reserve").

***Allowances for Loan Losses*** - The ALLL is a valuation allowance, which is established through a provision for loan losses charged to expense. When management believes that the collectability of the principal is unlikely, loans are charged against the ALLL. Subsequent recoveries, if any, are credited to the ALLL.

The ALLL is management's estimate of probable losses that are inherent in the loan portfolio. The ALLL is based on regular quarterly assessments. The methodologies for measuring the appropriate level of the ALLL include the combination of a quantitative historical loss history by loan type and a qualitative analysis for loans not classified as impaired or TDRs, and a specific allowance method for impaired and

TDR loans. The qualitative analysis is patterned after the guidelines provided under the Securities Exchange Commission ("SEC") Staff Accounting Bulletin 102 and the Federal Financial Institutions Examination Council ("FFIEC") Interagency Policy Statement on the Allowance for Loan and Lease Losses and include the following:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in national economic and business conditions and developments and the effect of unemployment on African Americans, who are the majority of our customers;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability, and depth of lending management and staff;
- Changes in trends of the volume and severity of past due and classified loans; and changes in trends in the volume of non-accrual loans, troubled debt restructurings and classified loans;
- Changes in the quality of the loan review system and the degree of oversight by the Bank's Board of Directors;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of external factors such as competition and legal and regulatory requirements.

Management has developed, from historical loan and economic information, quantitative drivers for certain qualitative factors. Management has identified which factors, by nature, are subjective, such as lending policies, competition, and regulatory requirements. The quantitative drivers, to which different weights are assigned based on management's judgment, are reviewed and updated quarterly. The quantitative loss history was based on a five-year rolling look back period at December 31, 2021 and 2020.

A specific ALLL is established for loans identified as impaired or TDRs, based on significant conditions or circumstances related to the specific credits. The specific allowance amounts are determined by a method prescribed by Accounting Standards Codification ("ASC") 310, *Receivables.* Loans identified as impaired are accounted for in accordance with one of three valuations: (i) the present value of future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price, or (iii) the fair value of the collateral, if the loan is collateral dependent, less estimated liquidation costs. A loan is considered impaired when it is probable that not all amounts due (principal and interest) will be collectable according to the original contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls are considered on a loan-by-loan basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

For commercial business, faith-based non-profit, real estate and certain consumer loans, the measurement of loan impairment is based on the present value of the expected future cash flows, discounted at the loan's effective interest rate, or on the fair value of the loan's collateral if the loan is collateral dependent. Most consumer loans are smaller balance and homogeneous, and are evaluated for impairment on a collective basis, applying the quantitative loss history and the qualitative factors. Impairment losses are included in the ALLL through a charge to the provision for loan losses.

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company's risk rating system was developed to aid in the risk management process by grouping credits with similar risk profiles into pass, special mention, substandard or doubtful categories. Credit risk ratings are applied individually to all classes of loans and leases. Internal credit reviews and external contracted credit review examinations are used to determine and validate loan risk grades. The credit review system takes into consideration factors such as: borrower's background and experience; historical and current financial condition; credit history and payment performance; economic conditions and their impact on various industries; type, market value and volatility of the market value of collateral; lien position; and the financial strength of guarantors.

The process of assessing the adequacy of the ALLL is necessarily subjective. Further, and particularly in periods of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management's current estimate of what constitutes a reasonable ALLL.

The Company and the Bank are subject to periodic examination by their federal and state regulators and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

***Reserve for Unfunded Commitments*** - The Unfunded Reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unfunded loans with available balances, new commitments to lend that are not yet funded, and standby and commercial letters of credit. The process used to determine the Unfunded Reserve is consistent with the process for determining the ALLL, as adjusted for estimated funding probabilities and historical five-year rolling look back quantitative loan loss factor at December 31, 2021 and 2020. The level of the Unfunded Reserve is adjusted by recording an expense or recovery in other noninterest expense. The balances of $21 thousand and $37 thousand for December 31, 2021 and 2020, respectively, were reflected in other liabilities on the Consolidated Balance Sheets.

***Bank Premises and Equipment, Net*** - Premises and equipment are stated at cost less accumulated depreciation and amortization. For financial reporting purposes, depreciation and amortization are computed by the straight-line method and are charged to operations over the estimated useful lives of the assets, which range from 30-50 years for premises; generally 6-10 years for furniture and equipment, and 3-5 years for information technology equipment and software. Leasehold improvements are amortized over the terms of the respective leases or the useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to operations as incurred. The Bank reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If the sum of the expected cash flows attributable to an asset is less than the stated amount of the asset, an impairment loss is recognized in the current period and charged to operations. Upon disposition, the asset and related accumulated depreciation and/or amortization are relieved, and any gains or losses are reflected in operations.

***Cash Surrender Value of Life Insurance*** - The Bank maintains life insurance on certain current and former officers and directors, of which the Bank is owner and beneficiary. The cash surrender value of the policies at December 31, 2021 and 2020 was $9.8 million and $9.5 million, respectively. Income from the policies and changes in the net cash surrender value, excluding additional purchases or withdrawals, are recorded in noninterest income.

***OREO*** **-** OREO, which represents real estate acquired through foreclosure, or the transfer of the deed in lieu of foreclosure in satisfaction of commercial and consumer real estate collateralized loans, is initially recorded at fair value less estimated holding and selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of the foreclosure are charged to the ALLL. Any subsequent operating expenses or income, reduction in estimated fair values, and gains or losses on disposition of such properties are charged or credited to non-interest income or non-interest expense. Valuations are periodically performed by management, and any subsequent write-downs due to the carrying value of a property exceeding its estimated fair value less estimated costs to sell are charged against other non-interest expense. As of December 31, 2021 and 2020, there were no foreclosed properties included in OREO on the Consolidated Balance Sheets. OREO excludes bank-owned property held for Company use. At December 31, 2021, there were no loans collateralized by residential real estate in the process of foreclosure.

***Leases*** – The Company determines if an arrangement is a lease at inception. Operating leases are included in ROU assets and lease liabilities on our Consolidated Balance Sheets. Finance leases are included in bank premises and equipment and other borrowings on our consolidated balance sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company’s leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, the Company may account for the lease and non-lease components as a single lease component.

***Revenue from Contracts with Customers*** **–** All of the Company’s revenues that are within the scope of ASC 606 are recognized within noninterest income. The following table presents the Company’s sources of noninterest income for the years ended December 31, 2021 and 2020. Items outside the scope of ASC 606 are noted as such.

| | For the Years Ended December 31, 2021 | For the Years Ended December 31, 2020 |
|---|---|---|
| **Noninterest income:** | | |
| Service charges on deposit accounts | $ 822 | $ 850 |
| Other service charges, commission and fees | 642 | 472 |
| Money service business income | 2,072 | 1,087 |
| Commissions from sales of financial products | 240 | 10 |
| Cash surrender value of life insurance (1) | 274 | 265 |
| Realized gain on sale of loans (1) | - | 186 |
| Net realized gains on sales of investment securities available-for-sale | - | 25 |
| Realized net gain (loss) on disposal of Bank premises and equipment | - | (4) |
| Gains on sales of repossessed assets | 29 | - |
| Other income (2) | 98 | 319 |
| Total noninterest income | $ 4,177 | $ 3,210 |

(1) Not within the scope of ASC 606
(2) Portions within the scope of ASC 606, but not material

There were no impairment losses recognized on any receivables or contract assets arising from the Company’s contracts with customers during the years ended December 31, 2021 and 2020. While the Company has noninterest income related to rental income, changes in cash surrender value of life insurance and sales of investments, these are not within the scope of ASC 606.

The service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan fees. The revenues generated from each of these contracts are recognized when a performance obligation is met, and each obligation is associated with a transaction tied to the account or the opening of the account. Given each of these accounts are transactional and the contract is a day-to-day contract, the performance obligations on these accounts occurs when the contract provision is triggered on the account, which results in the related service charge. Based on the Company's analysis, there are no fees generated for opening account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

The Company earns referral commissions for financial products such as annuities and equity investments. Commissions are earned upon the issuance of the financial product. The Company's performance obligation does not extend beyond the referral.

As of December 31, 2021 and 2020, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered. In addition, during the years ended December 31, 2021 and 2020, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods.

The Company analyzes its payment streams associated with contracts with customers on a quarterly basis. As of December 31, 2021 and 2020, the nature of the performance obligations within the contracts generating service charges on deposit, including money service business, and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, it was determined that there are no significant judgements associated with the recognition of revenue associated with these contracts.

Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2021 and 2020.

***Advertising Costs -*** Advertising is expensed as incurred.

***Income Taxes*** - Provisions for income taxes are based on amounts reported in the Consolidated Statements of Operations (after exclusion of non- taxable income such as interest on state and municipal securities) and include changes in deferred income taxes. Deferred tax asset and liability balances reflect temporary differences at the tax rate expected to be in effect when taxes will become payable or receivable. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements that will result in taxable or deductible amounts in future years. The effect of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if the Company determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more- likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation process, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of income. The Company does not have an accrual for uncertain tax positions as of December 31, 2021 and 2020, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on tax law. The Company's federal and state income tax returns are subject to review and examination by government authorities.

***Earnings Per Share Amounts*** - Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, excluding unvested shares of stock options. Diluted earnings per common share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. For the periods presented, the Company's potentially dilutive common stock issuances related to unvested shares of stock options under the Company's equity-based plans.

In computing diluted earnings per common share, adjustments are made to the computation of basic earnings per common shares, as follows. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. If any of the potentially dilutive common stock issuances have an anti-dilutive effect, the potentially dilutive common stock issuance is disregarded.

***Comprehensive Income*** - Comprehensive income is the change in the Company's equity during the period from transactions and other events and circumstances from non-owner sources. Total comprehensive income consists of net income and other comprehensive income (loss). The Company's other comprehensive income and accumulated other comprehensive loss are comprised of net unrealized gains and losses on certain investments in debt securities and post-retirement plans. Information concerning the Company's other comprehensive income and accumulated comprehensive loss as of and for the years ended December 31, 2021 and 2020 are presented in the Consolidated Statements of Comprehensive Income.

***Fair Values of Financial Instruments*** - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Company's assumptions (unobservable inputs). GAAP requires fair value measurements to be separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets.

Under GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The Company did not have any changes in leveling inputs in 2021.

These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U.S. Treasury ("U.S. Treasuries")U.S. Government agency securities ("U.S. Agencies"), U.S. Government sponsored residential mortgage backed securities ("MBS") and State and Municipal Bonds ("Municipals").

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

***Use of Estimates*** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to change in the near term relate to the determination of the ALLL and the provision for loan losses, the evaluation of other-than-temporary impairment of investment securities, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other accounting for incentive compensation, and post-retirement benefits. Actual results could differ from those estimates.

***Reclassification of Prior Year Presentation*** – Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. Adjustments have been made to the Consolidated Statements of Operations for the year ended December 31, 2020 to segregate $10 thousand to "Commissions from sales of financial products" from "Other income."

***Significant Group Concentrations*** - Most of the Bank's activities are with customers located within the state of NC. The Bank does have concentrations with respect to loans to and deposits from faith-based non-profit organizations as outlined in Note 6 to the Consolidated Financial Statements.

***Emergency Capital Investment Program*** – On December 14, 2021, the U.S. Department of the Treasury ("Treasury") informed the company that the Treasury had reviewed the Company's application to receive a capital investment from the Treasury under the Emergency Capital Investment Program ("ECIP"), and that the Company would be eligible to receive an ECIP investment in an amount up to $76.0 million in the form of non-dilutive Tier 1 senior perpetual preferred stock. If the Company accepts the ECIP investment from the Treasury, the Company would be required to fulfill certain conditions established by the Treasury and would be subject to certain restrictions, the terms of which will be set forth in a series of legal agreements to be provided by the Treasury. The Company has not received any ECIP investment for the fiscal year. Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low-and moderate-income community financial institutions and minority depository institutions such as the Bank to augment their efforts to support small businesses and consumers in their communities.

**New Accounting Pronouncements –**

In June 2016, the FASB issued guidance (ASU 2016-13) to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption is permitted for all organizations for periods beginning after December 15, 2018.

The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption was permitted beginning in first quarter 2019, the Company did not elect that option. The Company is evaluating the impact of the ASU on our consolidated financial statements. The Company expects the ASU will result in an increase in the recorded allowance for loan losses and unfunded commitments given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. The majority of the increase results from longer duration portfolios. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on held-to-maturity debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In August 2018, the FASB amended the Compensation – Retirement Benefits – Defined Benefit Plan Topic of the ASC. The amendments remove, modify, and add certain disclosure requirements for employers that sponsor defined benefit pension plans or other postretirement plan. The amendments are effective for fiscal years ending after December 15, 2020. The amendments did not have a material effect on the Company's consolidated financial statements.

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement of financial instruments. The amendments related to credit losses became effective for the Company for reporting periods beginning after December 15, 2020. The amendments related to hedging became effective January 1, 2019. The amendments related to recognition and measurement of financial instruments will be effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments did not have a material effect on the Company's consolidated financial statements.

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). The guidance is to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. In October of 2019, the FASB approved a proposal to defer implementation of the CECL model by smaller reporting companies to January 1, 2023. The Company currently qualifies for this deferral and has elected to defer adoption but has also taken steps to effect implementation of the guidance including: (1) forming a CECL Committee; (2) engaging a third-party vendor to develop models and model assumptions; (3) established initial framework for portfolio segmentation for application of the models; and (4) received preliminary results for consideration and evaluation. The Company will continue to calibrate and validate its approach during the period of deferral.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on CECL. The new effective dates will be for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022 including interim periods within those years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the CECL guidance issued in 2016. The amendments related to conforming amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 31, 2019. For the amendments related to ASU 2016-13, the effective date is during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to opening retained earnings in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. These amendments did not have a material effect on the Company's financial statements.

In October 2020, the FASB issued guidance to clarify the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of ASC 310-20-35-33 for each reporting period. The amendments will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2020, the FASB issued amendments to clarify the Accounting Standards Codification and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early application is permitted for any annual or interim period for which financial statements are available to be issued. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2021, the FASB added a topic to the Accounting Standards Codification, Government Assistance, to require certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2021. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

## 2. INVESTMENT SECURITIES

The main objectives of the Company's investment strategy are to provide a source of liquidity while managing our interest rate risk, and to generate an adequate level of interest income without taking undue risks. The Company's investment policy permits investments in various types of securities, certificates of deposit and federal funds sold in compliance with various restrictions in the policy. As of December 31, 2021 and 2020, all investment securities were classified as available-for-sale.

The Company's available-for-sale securities totaled $72.3 million and $57.0 million as of December 31, 2021 and 2020, respectively. In the normal course of business, the Company pledges securities to the FRB and to public housing authorities in NC and the NC Department of State Treasurer ("State Treasurer") as collateral for public deposits. The following table shows the amounts pledged:

| *(Dollars in thousands)* | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Pledged to FRB | $ 1,022 | $ 1,065 |
| Pledged to public housing authorities | 1,460 | 1,941 |
| Pledged to the State Treasurer | 34,073 | 22,817 |

The Company's investment portfolio consists of the following securities:

- U.S. Treasury securities ("U.S. Treasuries")
- U.S. Government agency securities ("U.S. Agencies")
- U.S. Government sponsored residential mortgage backed securities ("MBS"), and
- Municipal securities ("Municipals")

The amortized cost, gross unrealized gains and losses and fair values of investment securities at December 31, 2021 and 2020 were:

| *(Dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2021** | | | | |
| U.S. Treasuries | $ 1,922 | $ - | $ (7) | $ 1,915 |
| U.S. Agencies | 6,500 | - | (248) | 6,252 |
| MBS | 54,041 | 212 | (639) | 53,614 |
| Municipals | 10,706 | 43 | (204) | 10,545 |
| **Total** | $ 73,169 | $ 255 | $ (1,098) | $ 72,326 |
| **December 31, 2020** | | | | |
| U.S. Agencies | $ 4,500 | $ 6 | $ (19) | $ 4,487 |
| MBS | 46,453 | 518 | (17) | 46,954 |
| Municipals | 5,502 | 87 | (13) | 5,576 |
| **Total** | $ 56,455 | $ 611 | $ (49) | $ 57,017 |

Sales of securities available-for-sale during the year ended December 31, 2020 resulted in aggregate gross realized gains of $64 thousand and gross realized losses of $39 thousand; no such sales occurred during the year ended December 31, 2021.

The amortized cost and estimated market values of securities as of December 31, 2021 and 2020 by contractual maturities with the exception of MBS, which reflects projected cash flow streams, are shown below. Actual maturities may differ, because borrowers may have the right to call or prepay MBS, collateralized mortgage obligations, agency securities, and municipal bonds with or without call or prepayment penalties. Certain mortgage-backed securities have adjustable interest rates and will reprice within the various maturity ranges. These repricing schedules are not reflected in the following table.

| *(Dollars in thousands)* | **As of December 31, 2021** | |
|---|---|---|
| | **Fair Value** | **Amortized Cost** |
| U.S. Treasuries | | |
| Due after five years through ten years | $ 1,915 | $ 1,922 |
| Total U.S. Treasuries | $ 1,915 | $ 1,922 |
| U.S. Agencies | | |
| Due after five years through ten years | $ 6,252 | $ 6,500 |
| Total U.S. Agencies | $ 6,252 | $ 6,500 |
| MBS | | |
| Due after one year through five years | $ 43,563 | $ 43,771 |
| Due after five years through ten years | 10,051 | 10,270 |
| Total MBS | $ 53,614 | $ 54,041 |
| Municipals | | |
| Due after one year through five years | $ 532 | $ 518 |
| Due after five years through ten years | 5,431 | 5,546 |
| Due after ten years | 4,582 | 4,642 |
| Total Municipals | $ 10,545 | $ 10,706 |

| *(Dollars in thousands)* | As of December 31, 2020 | |
|---|---|---|
| | **Fair Value** | **Amortized Cost** |
| U.S. Agencies | | |
| Due within one year | $ 2,506 | $ 2,500 |
| Due after one year through five years | 1,981 | 2,000 |
| Total U.S. Agencies | $ 4,487 | $ 4,500 |
| | | |
| MBS | | |
| Due within one year | $ 11,397 | $ 11,210 |
| Due after one year through five years | 18,978 | 18,721 |
| Due after five years through ten years | 7,763 | 7,717 |
| Due after ten years | 8,816 | 8,805 |
| Total MBS | $ 46,954 | $ 46,453 |
| | | |
| Municipals | | |
| Due after one year through five years | $ 1,084 | $ 1,027 |
| Due after five years through ten years | 4,492 | 4,475 |
| Total Municipals | $ 5,576 | $ 5,502 |

As of December 31, 2021 and 2020, the fair value of securities with gross unrealized losses by length of time that the individual securities have been in an unrealized loss position is as follows:

| *(Dollars in thousands)* | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **December 31, 2021** | | | | | | |
| U.S. Treasuries | $ 1,915 | $ (7) | $ - | $ - | $ 1,915 | $ (7) |
| U.S. Agencies | 6,252 | (248) | - | - | 6,252 | (248) |
| MBS | 33,162 | (639) | - | - | 33,162 | (639) |
| Municipals | 7,348 | (204) | - | - | 7,348 | (204) |
| **Total** | $ 48,677 | $ (1,098) | $ - | $ - | $ 48,677 | $ (1,098) |

| *(Dollars in thousands)* | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| **December 31, 2020** | | | | | | |
| U.S. Agencies | $ 1,981 | $ (19) | $ - | $ - | $ 1,981 | $ (19) |
| MBS | 14,962 | (17) | - | - | 14,962 | (17) |
| Municipals | 1,281 | (13) | - | - | 1,281 | (13) |
| **Total** | $ 18,224 | $ (49) | $ - | $ - | $ 18,224 | $ (49) |

All securities owned as of December 31, 2021 and 2020 were investment grade. The Company evaluates securities for other-than- temporary impairment, at least on a quarterly basis. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and extent to which the fair value has been less than cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2021 and 2020, the Company held 44 and 9 investment positions, respectively, with unrealized losses of $1.1 million and $49 thousand, respectively. These investments were in U.S. Treasuries, U.S. Agencies, MBS and municipals. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management has determined that all declines in the market value of available-for-sale securities are not other-than-temporary and will not be likely required to sell.

## 3. FHLB STOCK

To be a member of the FHLB System, the Bank is required to maintain an investment in capital stock of the FHLB. Periodically, the FHLB recalculates the Bank's required level of holdings, and the Bank either buys more stock or redeems a portion of the stock at cost. The carrying value of FHLB stock, which is included in other invested assets, as of December 31, 2021 and 2020 was $0.2 million and $0.3 million, respectively. No ready market exists for the FHLB stock, and it has no quoted market value; however, management believes that the cost approximates the market value as of December 31, 2021 and 2020. Management has reviewed its investment in FHLB stock for impairment and does not believe it is impaired as of December 31, 2021 or 2020. The FHLB of Atlanta in which the Company owns stock has been profitable in each of the years ended December 31, 2021 and 2020.

## 4. RECONCILIATIONS OF BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

***Earnings Per Share*** - Earnings per share are calculated on the basis of the weighted average number of shares of common stock outstanding for the purpose of computing the basic earnings per share and the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents, such as stock options, for the purpose of computing diluted earnings per share. As of December 31, 2020, there were no stock options outstanding.

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | | 2020 | | |
| *(Dollars in thousands except share and per share amounts)* | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic EPS: | | | | | | |
| Basic EPS per common share | $ 2,693 | 1,975,418 | $ 1.36 | $ 1,050 | 2,047,623 | $ 0.51 |
| Diluted EPS: | | | | | | |
| Net Income | $ 2,693 | 1,975,418 | | $ 1,050 | 2,047,623 | |
| Effect of dilutive securities | - | - | | - | - | |
| Diluted EPS per common share | $ 2,693 | 1,975,418 | $ 1.36 | $ 1,050 | 2,047,623 | $ 0.51 |

## 5. ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net income and all other changes to the Company's equity, with the exception of transactions with stockholders. The Company's other comprehensive loss and accumulated other comprehensive loss are comprised of unrealized gains and losses on certain investments in debt securities and defined benefit plan adjustments.

**CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT**

**For the Years Ended December 31, 2021 and 2020**

*(Dollars in thousands)*

| | Unrealized Gains and Losses on Available-for-Sale Securities | Defined Benefit Pension Plans | Total |
|---|---|---|---|
| Balance as of December 31, 2019 | $ (200) | $ (1,645) | $ (1,845) |
| Other comprehensive income (loss) before reclassifications | 652 | (275) | 377 |
| Amounts reclassified from accumulated other comprehensive loss | (19) | - | (19) |
| Net current-period other comprehensive income (loss) | 633 | (275) | 358 |
| Balance as of December 31, 2020 | $ 433 | $ (1,920) | $ (1,487) |
| | | | |
| Balance as of December 31, 2020 | $ 433 | $ (1,920) | $ (1,487) |
| Other comprehensive income (loss) before reclassifications | (1,083) | 437 | (646) |
| Amounts reclassified from accumulated other comprehensive loss | - | - | - |
| Net current-period other comprehensive income (loss) | (1,083) | 437 | (646) |
| Balance as of December 31, 2021 | $ (650) | $ (1,483) | $ (2,133) |

All amounts are net of tax.

**RECLASSIFICATION ADJUSTMENTS FROM ACCUMULATED OTHER COMPREHENSIVE LOSS**

| *(Dollars in thousands)* | For the Years Ended December 31, 2021 | 2020 | |
|---|---|---|---|
| **Detail about Accumulated Other Comprehensive Loss Components** | **Amount Reclassified from Accumulated Other Comprehensive Loss** | **Amount Reclassified from Accumulated Other Comprehensive Loss** | Affected Line Item in the Consolidated Statements of Operations |
| Net unrealized holding gains - investment securities available-for-sale | $ - | $ (25) | Net realized gains on sales of investments |
| Income tax expense | - | 6 | Income tax expense |
| Total reclassifications for the period, net of tax | $ - | $ (19) | Total, net of tax |

There were no reclassification adjustments from accumulated other comprehensive loss.

## 6. LOANS AND ALLL

The ALLL is management's estimate of losses inherent in the loan portfolio. The provision for loan losses is the amount charged against earnings to establish an adequate ALLL. Loan losses and recoveries are charged to or credited to the ALLL, rather than reported as a direct expense or recovery. The loan portfolio is segmented into three parts for the ALLL calculation: impaired commercial loans and smaller balance homogeneous loans in the process of foreclosure, TDRs (collectively referred to as "impaired loans"), and all other loans.

For all classes of commercial loans, a quarterly evaluation of specific individual borrowers is performed to identify impaired loans. The identification of specific borrowers for review is based on a review of non-accrual loans as well as those loans specifically identified by management as exhibiting above average levels of risk through the loan classification process. The ALLL attributed to impaired loans and TDRs considers all available evidence based on significant conditions or circumstances related to the specific credits. The specific allowance amounts are determined by a method prescribed by ASC 310. The loans identified as impaired and TDRs are accounted for in accordance with one of three valuations: (i) the present value of future cash flows discounted at the loan's effective interest rate; (ii) the loan's observable market price, or (iii) the fair value of the collateral, if the loan is collateral dependent, less estimated liquidation costs. Factors considered by management in determining impairment include payment status, collateral value, alternate use of special purpose real estate which could adversely impact resale, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The significance of payment delays and payment shortfalls are considered on a loan-by-loan basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Most consumer loans are evaluated for impairment on a collective basis, because these loans are for smaller balances and are homogeneous. Any loans, including commercial loans, not specifically identified as impaired or TDRs, are collectively evaluated and segmented by loan type, applying two factors: the quantitative loss history by loan type for the previous five year periods at December 31, 2021 and 2020 compared to average loans outstanding for the same period (the "quantitative factor"), and a qualitative factor that is comprised of quantitatively-driven calculations based on historical data, and subjective factors (the "qualitative factors"). The quantitative portion of the ALLL is adjusted for qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance.

The quantitative factor by loan type is applied against the unimpaired loan balances and smaller-balance homogeneous impaired loans not in the process of foreclosure for which there is no specific reserve to determine the quantitative reserve. The qualitative factors, including (i) policy underwriting, charge-off and collection, (ii) national and local economic conditions, (iii) nature and volume of the portfolio, (iv) experience, ability, and depth of lending team, (v) trends of past due, classified loans, and restructurings, (vi) quality of loan review and board oversight, (vii) existence, levels, and effect of loan concentrations and (viii) effects of external factors such as competition and regulatory oversight, are adjusted quarterly based on historical information for any quantifiable factors and qualitative judgments for subjective factors (those considered subjective are policy, underwriting, experience, ability and depth of lending team, quality of loan review and board oversight, and effects of external factors), and applied in total to each loan balance by loan type. The Company continues to enhance its modeling of the portfolio and underlying risk factors through quarterly analytical reviews with the goal of ensuring it captures all pertinent factors contributing to risk of loss inherent in the loan portfolio. Under ASC 310, the non-homogeneous impaired loans, homogeneous small balance real estate secured loans in process of foreclosure for which the value is less than the loan principal balance, and TDRs, are reviewed individually for impairment.

The process of assessing the adequacy of the ALLL is inherently subjective. Further, and particularly in terms of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future loan charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for loan losses.

The Company and the Bank are subject to periodic examination by their federal and state banking regulators and may be required by their regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

Loans are generally placed on non-accrual status when the scheduled payments reach 90 days past due. Loans are charged-off, with Board of Directors' approval, when the Chief Credit Officer and his staff determine that all reasonable means of collection of the outstanding balances, except foreclosure, have been exhausted. The Company continues its collection efforts subsequent to charge-off, which historically has resulted in some recoveries each year.

The composition of the loan portfolio, net of deferred fees and costs, by loan classification as of December 31, 2021 and 2020:

| *(Dollars in thousands)* | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Commercial | $ 63,777 | $ 35,136 |
| Commercial real estate: | | |
| Construction | 3,899 | 1,721 |
| Owner occupied | 36,906 | 29,788 |
| Other | 28,275 | 26,283 |
| Faith-based non-profit: | | |
| Construction | 1,622 | 1,858 |
| Owner occupied | 53,059 | 57,770 |
| Other | 351 | 1,278 |
| Residential real estate: | | |
| First mortgage | 22,215 | 19,148 |
| Multifamily | 16,118 | 9,614 |
| Home equity | 4,527 | 3,756 |
| Consumer | 1,111 | 1,130 |
| Other loans | 48 | 42 |
| Loans, net of deferred fees | 231,908 | 187,524 |
| ALLL | (2,272) | (2,673) |
| Loans, net of ALLL | $ 229,636 | $ 184,851 |

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") created the PPP to provide certain small businesses with liquidity to support their operations during the COVID-19 pandemic. Entities must meet certain eligibility requirements to receive PPP loans, and they must maintain specified levels of payroll and employment to have the loans forgiven. The conditions are subject to audit by the U.S. government, but entities that borrow less than $2 million (together with any affiliates) will be deemed to have made the required certification concerning the necessity of the loan in good faith.

Under the PPP, eligible small businesses could apply to SBA approved lender for a loan that does not require collateral or personal guarantees. The loans have a 1% fixed interest rate. Loans issued prior to June 5, 2020 are due in two years unless otherwise modified, and loans issued after June 5, 2020 are due in five years. However, they are eligible for forgiveness (in full or in part, including any accrued interest) under certain conditions. For loans (or parts of loans) that are forgiven, the lender will collect the forgiven amount from the U.S. government.

In response to the COVID-19 pandemic, the Company took several actions to offer various forms of support to its customer, employees and communities that have experienced impacts from this development. The Company worked with customers impacted by the economic downturn, including securing loans for its customers under the PPP.

On December 27, 2020, the Economic Aid Act was signed into law, which included another round of Paycheck Protection Program ("PPP") funding administered by the U.S. Small Business Administration ("SBA"). The Company began originating the new round of PPP loans in January 2021. During the year ended December 31, 2021, the Company funded $34.6 million in PPP loans, while also processing $22.5 million in forgiveness payments related to both 2020 and 2021 PPP loan originations.

Under the PPP, small businesses and other entities and individual could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Company is a participating lender in the PPP. The PPP opened on April 3, 2020 intending to provide American small businesses with eight weeks of cash-flow assistance through 100% federally guaranteed loans through the SBA. In late April 2020, the PPP and Health Care Enhancement Act added another $310 billion in funding, while the PPP Flexibility Act made certain changes to the program, by allowing for more time to spend the funds, and making it easier to get a loan fully forgiven. On December 27, 2020, the Economic Aid Act was signed into law, which included another round of PPP funding administered by the SBA. As of December 31, 2021 and 2020, the Company had 263 and 115, respectively, commercial PPP loans outstanding with a total balance of $26.0 million and $5.5 million, respectively, and four and 42, respectively, faith-based non-profit other PPP loans outstanding with a total balance of $62 thousand and 1.0 million, respectively. As these loans are 100% guaranteed through the SBA, there is no ALLL recorded on them. During 2021 and 2020, the Company received 546 and 35, respectively, forgiveness applications and had submitted these to the SBA through the SBA Forgiveness portal. Upon notification of forgiveness, the Company ceases to accrue interest and reclassifies the loan balance from "Loans" to an "SBA Receivable." As of December 31, 2021 and 2020, the Company had received forgiveness on 525 and 20, respectively, applications totaling $22.5 million and $0.6 million, respectively. Interest and fees on loans included $1.5 million and $195 thousand for the years ended December 31, 2021 and 2020, respectively, related to the accretion of loan fees on PPP loans. As of December 31, 2021 and 2020, the Company had $863 thousand and $129 thousand, respectively, of remaining unaccreted net fees related to PPP loans. During 2020, the Company sold 57 PPP loans with net principal balances of $8.8 million, which resulted in realized gains of $0.2 million. No such sales occurred during 2021.

On March 22, 2020, a statement was issued by our regulators and titled the “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” (the “Interagency Statement”) that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act that passed on March 27, 2020 further provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. In accordance with such guidance, the Company offered short-term modifications made in response to COVID-19 to borrowers, who are current and otherwise not past due. These include short-term (180 days or less) modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. The Company generally offered impacted borrowers loan payment deferrals of 90 days in duration. During the year ended December 31, 2020, the Company had deferred payments on 133 loans with aggregate loan balances of $78.2 million. The deferred principal amounts are generally added by the Company to the payoff balance of the loan at maturity. As of December 31, 2020, the Company had remaining payment deferrals related to three loans with aggregate loan balances of $1.1 million. Approximately $1.0 million of the $1.1 million in deferrals were second deferrals. The borrowers were scheduled to resume principal and interest payments following the deferral period. As of December 31, 2021, the Company had no loans on payment deferrals related to the effects of COVID-19.

The Bank has a concentration of loans to faith-based non-profit organizations, in which the Bank has specialized lending experience. At December 31, 2021, the percentage of loans in this segment, which included construction, owner occupied real estate secured and other loans, comprised 23.73% of the total loan portfolio. The reserve allocated for these loans at December 31, 2021 was 37.98% of the total ALLL. Historically the Bank has experienced low levels of loan losses in this segment; however, repayment of these loans is generally dependent on voluntary contributions, some of which had been adversely affected during the economic downturn.

Management has identified its loan-related disclosure classifications in its financial reports to present portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its ALLL. The following tables present the reported investment in loans, net of deferred fees and costs, by portfolio segment and based on impairment method and related ALLL as of December 31, 2021 and 2020, respectively:

| | December 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Commercial** | **Commercial Real Estate** | **Faith Based Non-Profit** | **Residential Real Estate** | **Consumer** | **Other Loans** | **Total** |
| ALLL: | | | | | | | |
| Ending ALLL balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ 370 | $ - | $ 49 | $ - | $ 419 |
| Collectively evaluated for impairment | 220 | 675 | 493 | 433 | 17 | 15 | 1,853 |
| Total ending ALLL balance | $ 220 | $ 675 | $ 863 | $ 433 | $ 66 | $ 15 | $ 2,272 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | $ - | $ - | $ 7,566 | $ - | $ 49 | $ - | $ 7,615 |
| Loans collectively evaluated for impairment | 63,777 | 69,080 | 47,466 | 42,860 | 1,062 | 48 | 224,293 |
| Total ending loans balance | $ 63,777 | $ 69,080 | $ 55,032 | $ 42,860 | $ 1,111 | $ 48 | $ 231,908 |

| (Dollars in thousands) | Commercial | Commercial Real Estate | Faith Based Non-Profit | Residential Real Estate | Consumer | Other Loans | Total |
|---|---|---|---|---|---|---|---|
| | December 31, 2020 | | | | | | |
| ALLL: | | | | | | | |
| Ending ALLL balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ 343 | $ - | $ - | $ - | $ 343 |
| Collectively evaluated for impairment | 236 | 1,005 | 610 | 448 | 20 | 11 | 2,330 |
| Total ending ALLL balance | $ 236 | $ 1,005 | $ 953 | $ 448 | $ 20 | $ 11 | $ 2,673 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | $ - | $ - | $ 7,990 | $ 14 | $ - | $ - | $ 8,004 |
| Loans collectively evaluated for impairment | 35,136 | 57,792 | 52,916 | 32,504 | 1,130 | 42 | 179,520 |
| Total ending loans balance | $ 35,136 | $ 57,792 | $ 60,906 | $ 32,518 | $ 1,130 | $ 42 | $ 187,524 |

| (Dollars in thousands) | Commercial | Commercial Real Estate | Faith-Based Non-Profit | Residential Real Estate | Consumer | Other Loans | Total |
|---|---|---|---|---|---|---|---|
| | For the Year Ended December 31, 2021 | | | | | | |
| ALLL: | | | | | | | |
| Total ending ALLL balances as of December 31, 2020 | $ 236 | $ 1,005 | $ 953 | $ 448 | $ 20 | $ 11 | $ 2,673 |
| For the year ended December 31, 2021 | | | | | | | |
| Charge-offs | - | - | - | - | (15) | (21) | (36) |
| Recoveries | - | - | - | 1 | 1 | 6 | 8 |
| Provision for (reversal of) loan losses | (16) | (330) | (90) | (16) | 60 | 19 | (373) |
| Total ending ALLL balances as of December 31, 2021 | $ 220 | $ 675 | $ 863 | $ 433 | $ 66 | $ 15 | $ 2,272 |

| *(Dollars in thousands)* | Commercial | Commercial Real Estate | Faith-Based Non-Profit | Residential Real Estate | Consumer | Other Loans | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| | **For the Year Ended December 31, 2020** | | | | | | | |
| ALLL: | | | | | | | | |
| Total ending ALLL balances as of December 31, 2019 | $ 92 | $ 783 | $ 710 | $ 290 | $ 15 | $ 15 | $ 55 | $ 1,960 |
| For the year ended December 31, 2020 | | | | | | | | |
| Charge-offs | (98) | - | - | (26) | (12) | (22) | - | (158) |
| Recoveries | 3 | 137 | 4 | 20 | 2 | 5 | - | 171 |
| Provision for (reversal of) loan losses | 239 | 85 | 239 | 164 | 15 | 13 | (55) | 700 |
| Total ending ALLL balances as of December 31, 2020 | $ 236 | $ 1,005 | $ 953 | $ 448 | $ 20 | $ 11 | $ - | $ 2,673 |

The following tables show impaired loans with and without valuation allowances as of December 31, 2021 and 2020:

| *(Dollars in thousands)* | Unpaid Principal Balance | Recorded Investment | ALLL Allocated | Interest Earned For the Year | Average Recorded Investment |
|---|---|---|---|---|---|
| | **December 31, 2021** | | | | |
| **With no related allowance recorded:** | | | | | |
| Residential real estate: | | | | | |
| Multifamily | $ - | $ - | $ - | $ - | $ 2 |
| Home equity | - | - | - | - | 11 |
| **Impaired loans with no allowance recorded** | $ - | $ - | $ - | $ - | $ 13 |
| **With an allowance recorded:** | | | | | |
| Faith based non-profit: | | | | | |
| Owner occupied | $ 7,566 | $ 7,584 | $ 370 | $ 393 | $ 7,825 |
| Consumer | 49 | 49 | 49 | - | 6 |
| **Impaired loans with allowance recorded** | $ 7,615 | $ 7,633 | $ 419 | $ 393 | $ 7,831 |
| **Total impaired loans** | $ 7,615 | $ 7,633 | $ 419 | $ 393 | $ 7,844 |

| (Dollars in thousands) | December 31, 2020<br>Unpaid Principal Balance | Recorded Investment | ALLL Allocated | Interest Earned For the Year | Average Recorded Investment |
|---|---|---|---|---|---|
| **With no related allowance recorded:** | | | | | |
| Residential real estate: | | | | | |
| Home equity | 14 | 14 | - | - | 5 |
| **Impaired loans with no allowance recorded** | $ 14 | $ 14 | $ - | $ - | $ 5 |
| **With an allowance recorded:** | | | | | |
| Commercial | $ - | $ - | $ - | $ - | $ 7 |
| Faith based non-profit: | | | | | |
| Owner occupied | 7,990 | 8,073 | 343 | 403 | 9,130 |
| Home equity | - | - | - | - | 10 |
| **Impaired loans with allowance recorded** | $ 7,990 | $ 8,073 | $ 343 | $ 403 | $ 9,147 |
| **Total impaired loans** | $ 8,004 | $ 8,087 | $ 343 | $ 403 | $ 9,152 |

The recorded investment in loan balance includes the outstanding loan balance (net of any charge-offs), accrued interest, deferred fees and costs, and unamortized premium or discount, where applicable.

The Bank modifies certain loans and provides a concession such as a reduced rate, extended terms, or reduction of principal and/or interest, in a TDR where the borrowers are experiencing financial difficulties. These concessions typically result from loss mitigation recommendations developed by the Bank's problem loan team. Concessions could include reductions in below market interest rates, payment extensions, forbearance or other actions. TDRs are generally classified as nonperforming at the time of restructuring and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When loans are modified as TDRs, the Bank evaluates each loan for any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the repayment source is expected to be the liquidation of underlying collateral, in which cases the Bank uses the fair value of the collateral less selling costs, instead of discounted cash flows. If the Bank determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance allocation or a charge-off to the allowance.

The Bank completed no new TDRs during the years ended December 31, 2021 or 2020. Based upon financial analysis and the fair value of collateral, the Bank allocated $0.4 million and $0.3 million of specific reserves for TDRs at December 31, 2021 and 2020, respectively.

The were no loans modified as a TDR with a payment default occurring within 12 months of the restructure date, during the years ended December 31, 2021 or 2020.

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2021 and 2020:

| **December 31, 2021** *(Dollars in thousands)* | **Non-accrual** | **Number** | **90 Days or More Past Due Still Accruing** | **Number** |
|---|---|---|---|---|
| Faith-based non-profit: | | | | |
| Owner occupied | $ 775 | 1 | - | - |
| Consumer | 49 | 1 | - | - |
| Total | $ 824 | 2 | $ - | - |

| **December 31, 2020** *(Dollars in thousands)* | **Non-accrual** | **Number** | **90 Days or More Past Due Still Accruing** | **Number** |
|---|---|---|---|---|
| Faith-based non-profit: | | | | |
| Owner occupied | $ 865 | 1 | - | - |
| Residential real estate: | | | | |
| Home equity | 14 | 1 | - | - |
| Total | $ 879 | 2 | $ - | - |

Non-accrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Loans from which principal or interest is in default for 90 days or more are classified as a non-accrual unless they are well secured and in process of collection. Loans past due over 90 days still accruing were matured loans that were well secured and in process of collection. Borrowers have continued to make payments on these loans while administrative and legal due processes are proceeding which will enable the Bank to extend or modify maturity dates.

Unrecognized income on non-accrual loans as of December 31, 2020 and 2019 was $3 thousand and $1 thousand, respectively.

The following tables present loans not past due, and the aging of past due loans as of December 31, 2021 and 2020 by class of loans:

| **December 31, 2021** *(Dollars in thousands)* | **30-59 Days Past Due** | **60-89 Days Past Due** | **90 Days Or More Past Due** | **Total Past Due** | **Current** | **Total** |
|---|---|---|---|---|---|---|
| Commercial | $ 55 | $ - | $ - | $ 55 | $ 63,722 | $ 63,777 |
| Commercial real estate: | | | | | | |
| Construction | - | - | - | - | 3,899 | 3,899 |
| Owner occupied | 19 | - | - | 19 | 36,887 | 36,906 |
| Other | - | - | - | - | 28,275 | 28,275 |
| Faith-based non-profit: | | | | | | |
| Construction | - | - | - | - | 1,622 | 1,622 |
| Owner occupied | 198 | - | - | 198 | 52,861 | 53,059 |
| Other | - | - | - | - | 351 | 351 |
| Residential real estate: | | | | | | |
| First mortgage | - | 9 | - | 9 | 22,206 | 22,215 |
| Multifamily | - | - | - | - | 16,118 | 16,118 |
| Home equity | 17 | - | - | 17 | 4,510 | 4,527 |
| Consumer | 25 | 8 | 49 | 82 | 1,029 | 1,111 |
| Other loans | - | - | - | - | 48 | 48 |
| Total | $ 314 | $ 17 | $ 49 | $ 380 | $ 231,528 | $ 231,908 |

| **December 31, 2020** *(Dollars in thousands)* | **30-59 Days Past Due** | **60-89 Days Past Due** | **90 Days Or More Past Due** | **Total Past Due** | **Current** | **Total** |
|---|---|---|---|---|---|---|
| Commercial | $ - | $ - | $ - | $ - | $ 35,136 | $ 35,136 |
| Commercial real estate: | | | | | | |
| Construction | - | - | - | - | 1,721 | 1,721 |
| Owner occupied | - | - | - | - | 29,788 | 29,788 |
| Other | - | - | - | - | 26,283 | 26,283 |
| Faith-based non-profit: | | | | | | |
| Construction | - | - | - | - | 1,858 | 1,858 |
| Owner occupied | 235 | - | - | 235 | 57,535 | 57,770 |
| Other | - | - | - | - | 1,278 | 1,278 |
| Residential real estate: | | | | | | |
| First mortgage | - | - | - | - | 19,148 | 19,148 |
| Multifamily | - | - | - | - | 9,614 | 9,614 |
| Home equity | 23 | - | 14 | 37 | 3,719 | 3,756 |
| Consumer | - | 16 | - | 16 | 1,114 | 1,130 |
| Other loans | - | - | - | - | 42 | 42 |
| Total | $ 258 | $ 16 | $ 14 | $ 288 | $ 187,236 | $ 187,524 |

The following tables display all non-accrual loans and loans 90 or more days past due and still on accrual for the periods ended December 31, 2021 and 2020.

**December 31, 2021**
*(Dollars in thousands)*

| | Amount | Number |
|---|---|---|
| Loans past due over 90 days still on accrual | $ - | - |
| Non-accrual loans past due | | |
| Less than 30 days | $ 775 | 1 |
| 30-59 days | - | - |
| 60-89 days | - | - |
| 90+ days | 49 | 1 |
| Non-accrual loans | $ 824 | 2 |

**December 31, 2020**
*(Dollars in thousands)*

| | Amount | Number |
|---|---|---|
| Loans past due over 90 days still on accrual | $ - | - |
| Non-accrual loans past due | | |
| Less than 30 days | $ 865 | 1 |
| 30-59 days | - | - |
| 60-89 days | - | - |
| 90+ days | 14 | 1 |
| Non-accrual loans | $ 879 | 2 |

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans for reserves according to the loan's classification as to credit risk.This analysis includes homogeneous loans, such as commercial, commercial real estate and faith based non–profit entities, and mortgage loans in process of foreclosure for which the loan to value does not support repayment in full. This analysis is performed on at least a quarterly basis.The Company uses the following definitions for risk ratings:

- Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. These loans exhibit a moderate likelihood of some loss related to those loans and leases that are considered special mention.

- Substandard. Loans classified as substandard are inadequately protected by the current sound financial repayment capacity and service coverage of the debtor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that may jeopardize the liquidation of or repayment according to the original terms of the debt. In addition to commercial and faith-based non-profit loans with identified weaknesses, substandard loans include loans within the mortgage and consumer portfolio segments that are past due 90 days or more as to principal or interest if the loan to value does not support full repayment. Substandard loans are evaluated for impairment on an individual loan basis unless the substandard loan is a smaller balance homogeneous loan that is not a TDR and is not in the process of foreclosure. These loan exhibits a distinct possibility that the company will sustain some loss if the deficiencies related to the loans is not corrected in a timely manner.

- Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- Pass. Loans are classified as pass in all classes within the commercial, faith-based non-profit, mortgage, consumer, and other portfolio segments that are not identified as special mention, substandard, or doubtful, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. These loans exhibit a low likelihood of loss related to loans that are considered pass.

As of December 31, 2021, the risk category of loans by class of loans was as follows:

| **December 31, 2021** *(Dollars in thousands)* | **Pass** | **Special Mention** | **Substandard** | **Doubtful** | **Total** |
|---|---|---|---|---|---|
| Commercial | $ 63,693 | $ 84 | $ - | $ - | $ 63,777 |
| Commercial real estate: | | | | | |
| Construction | 3,899 | - | - | - | 3,899 |
| Owner occupied | 36,906 | - | - | - | 36,906 |
| Other | 27,750 | 525 | - | - | 28,275 |
| Faith-based non-profit: | | | | | |
| Construction | 1,622 | - | - | - | 1,622 |
| Owner occupied | 48,436 | 198 | 4,425 | - | 53,059 |
| Other | 351 | - | - | - | 351 |
| Residential real estate: | | | | | |
| First mortgage | 22,206 | 9 | - | - | 22,215 |
| Multifamily | 16,102 | 16 | - | - | 16,118 |
| Home equity | 4,527 | - | - | - | 4,527 |
| Consumer | 1,060 | - | 51 | - | 1,111 |
| Other loans | 48 | - | - | - | 48 |
| Total | $ 226,600 | $ 832 | $ 4,476 | $ - | $ 231,908 |

As of December 31, 2020, the risk category of loans by class of loans was as follows:

| **December 31, 2020** *(Dollars in thousands)* | **Pass** | **Special Mention** | **Substandard** | **Doubtful** | **Total** |
|---|---|---|---|---|---|
| Commercial | $ 35,136 | $ - | $ - | $ - | $ 35,136 |
| Commercial real estate: | | | | | |
| Construction | 1,721 | - | - | - | 1,721 |
| Owner occupied | 28,711 | 1,077 | - | - | 29,788 |
| Other | 26,283 | - | - | - | 26,283 |
| Faith-based non-profit: | | | | | |
| Construction | 1,858 | - | - | - | 1,858 |
| Owner occupied | 52,942 | - | 4,828 | - | 57,770 |
| Other | 1,278 | - | - | - | 1,278 |
| Residential real estate: | | | | | |
| First mortgage | 19,148 | - | - | - | 19,148 |
| Multifamily | 9,595 | 19 | - | - | 9,614 |
| Home equity | 3,727 | 29 | - | - | 3,756 |
| Consumer | 1,127 | - | 3 | - | 1,130 |
| Other loans | 42 | - | - | - | 42 |
| Total | $ 181,568 | $ 1,125 | $ 4,831 | $ - | $ 187,524 |

## 7. BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment, net as of December 31, 2021 and 2020:

| *(Dollars in thousands)* | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| Land | $ 308 | $ 278 |
| Buildings and leasehold improvements | 5,121 | 5,077 |
| Furniture and equipment | 2,841 | 2,751 |
| Finance leases | 260 | 260 |
| Construction in progress | 1 | 11 |
| Bank premises and equipment | 8,531 | 8,377 |
| Less: accumulated depreciation and amortization | (6,229) | (5,788) |
| Bank premises and equipment, net | $ 2,302 | $ 2,589 |

Total depreciation expense was $0.4 million for the years ended December 31, 2021 and 2020.

## 8. DEPOSITS

Deposits are the Bank's primary source of funds for making loans and purchasing investments. The Bank offers a variety of deposit account products to commercial and consumer customers. The total deposits that were re-classified to loans due to overdrafts were $31 thousand and $22 thousand at December 31, 2021 and 2020, respectively. The Bank has a concentration of deposits related to the faith-based industry. At December 31, 2021 and 2020, faith-based deposits totaled $21.7 million and $19.8 million, respectively.

The following shows the maturity schedule of all time deposits:

| *(Dollars in thousands)* | **Amount** |
|---|---|
| 2022 | $ 70,687 |
| 2023 | 3,267 |
| 2024 | 987 |
| 2025 | 1,091 |
| 2026 | 597 |
| Thereafter | 327 |
| Total | $ 76,956 |

Principal maturities of time deposits of $250,000 or more as of December 31, 2021 and 2020 were as follows:

| | **December 31, 2021** | | **December 31, 2020** | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **Amount** | **Average Rate** | **Amount** | **Average Rate** |
| Three months or less | $ 2,100 | 0.21 % | $ 3,751 | 0.10 % |
| Over three months to six months | 4,780 | 0.19 | 4,520 | 0.11 |
| Over six months to twelve months | 14,061 | 0.20 | 9,237 | 0.84 |
| Over one year to five years | 2,085 | 0.33 | 2,778 | 0.38 |
| Total | $ 23,026 | 0.21 % | $ 20,286 | 0.48 % |

For the years ended December 31, 2021 and 2020, the Bank had $75 thousand and $0.2 million, respectively, in interest expense for time deposits greater than $250,000.

In the normal course of business, certain directors and executives of the Company and the Bank, including their immediate families and companies in which they have an interest, are deposit customers. These relationships had aggregate deposits of $1.8 million and $1.3 million as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, the Bank had one deposit relationships with a balance in excess of five percent of total deposits totaling $20.0 million and two deposit relationships totaling $30.0 million as of December 31, 2020.

## 9. LEASES

As of December 31, 2021, the Company had operating and finance leases for facilities, land and equipment. Leases have remaining lease terms of 0.2 years to 17.5 years, some of which include options to extend the leases for up to an additional 10 years.

The components of lease expense are as follows:

| | **For the Years Ended December 31,** | |
|---|---|---|
| *(Dollars in thousands)* | **2021** | **2020** |
| **Lease Cost:** | | |
| Finance lease cost: | | |
| Amortization of ROU asset | $ 72 | $ 64 |
| Interest on lease liabilities | 1 | 1 |
| Operating lease cost | 218 | 218 |
| Total lease cost | $ 291 | $ 283 |

ROU asset totaled $0.9 million and $1.1 million at December 31, 2021 and 2020, respectively.

Supplemental balance sheet information related to leases are as follows:

| *(Dollars in thousands)* | For the Years Ended December 31, 2021 | | For the Years Ended December 31, 2020 | |
|---|---|---|---|---|
| **Finance Leases:** | | | | |
| Finance leases | $ | 260 | $ | 260 |
| Accumulated depreciation | | (138) | | (66) |
| Finance leases, net | $ | 122 | $ | 194 |
| **Other Borrowings:** | | | | |
| Total finance lease liabilities | $ | 130 | $ | 204 |
| **Weighted Average Remaining Lease Terms:** | | | | |
| Finance leases | | 2.4 years | | 3.1 years |
| Operating leases | | 11.3 years | | 12.8 years |
| **Weighted Average Discount Rates:** | | | | |
| Finance leases | | 0.53% | | 0.60% |
| Operating leases | | 3.16% | | 3.14% |

Estimated lease payments for the Company's operating leases with the initial term of one year or more as of December 31, 2021 were as follows:

| *(Dollars in thousands)* | Estimated Amortization Expense | |
|---|---|---|
| 2022 | $ | 222 |
| 2023 | | 92 |
| 2024 | | 83 |
| 2025 | | 71 |
| 2026 | | 70 |
| Thereafter | | 710 |
| Total estimated lease payments | | 1,248 |
| Less effect of discounting | | (263) |
| Present value of estimated lease payments (lease liability) | $ | 985 |

Estimated lease payments for the Company's finance leases with the initial term of one year or more as of December 31, 2021 were as follows:

| *(Dollars in thousands)* | Estimated Depreciation Expense | |
|---|---|---|
| 2022 | $ | 65 |
| 2023 | | 45 |
| 2024 | | 12 |
| 2025 | | 9 |
| 2026 | | - |
| Thereafter | | - |
| Total estimated lease payments | | 131 |
| Less effect of discounting | | (1) |
| Present value of estimated lease payments (lease liability) | $ | 130 |

The minimum lease payments do not include common area maintenance ("CAM") charges or real estate taxes, which are also required contractual obligations under our operating leases. CAM charges and real estate taxes are not fixed and are subject to fluctuation. Total CAM charges for the years ended December 31, 2021 and 2020 were $75 thousand and $77 thousand, respectively.

## 10. BORROWINGS

Borrowings as of December 31, 2021 and 2020 consisted of finance leases of $0.1 million and $0.2 million, respectively, with weighted average interest rates of 0.53% and 0.06%, respectively. See Note 9 for details on leases. Interest expense on advances from FHLB for the years ended December 31, 2021 and 2020 were none, and $1 thousand, respectively. The maximum FHLB advances outstanding at any month end during the year ended December 31, 2021 and 2020 were none and $0.5 million, respectively. As of December 31, 2021 and 2020, the Bank had the borrowing availability of an additional $19.8 million and $27.5 million, respectively, from the FHLB. Pursuant to collateral agreements with the FHLB, advances are secured by FHLB stock, and qualifying loans totaling $19.8 million and $27.5 million as of December 31, 2021 and 2020, respectively.

The Company has federal funds lines of credit with correspondent banks totaling $26.0 and $10.0 million at December 31, 2021 and 2020, respectively. No borrowings were outstanding on these lines of credit at December 31, 2021 or 2020. The Company periodically tests its federal funds lines of credit with its correspondent banks. These lines were tested quarterly during the year ended December 31, 2021.

## 11. INCOME TAXES

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

| *(Dollars in thousands)* | **2021** | **2020** |
|---|---|---|
| Income tax expense | | |
| Current | $ 5 | $ 13 |
| Deferred | 821 | 281 |
| Total | $ 826 | $ 294 |

A reconciliation of reported income tax expense for the years ended December 31, 2021 and 2020 to the amount of tax expense computed by multiplying income before income taxes by the statutory federal income tax rate follows:

| *(Dollars in thousands)* | **2021** | **2020** |
|---|---|---|
| Statutory federal income tax rate | 21% | 21% |
| Tax provision at statutory rate | $ 758 | $ 282 |
| **Increase (decrease) in income taxes resulting from:** | | |
| State income taxes net of federal benefit | 72 | 21 |
| Change in deferred tax valuation allowance | 4 | 3 |
| Cash surrender value of life insurance | (58) | (56) |
| Other | 50 | 44 |
| Total | $ 826 | $ 294 |

The tax effect of the cumulative temporary differences and carry forwards that gave rise to the deferred tax assets and liabilities as of December 31, 2021 and 2020 within the Consolidated Balance Sheets were as follows:

| *(Dollars in thousands)* | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Deferred tax assets:** | | |
| Adjustments, defined benefit plans | $ 442 | $ 572 |
| Excess book over tax provision for loan loss expense | 527 | 623 |
| Federal net operating loss carryforward | 852 | 1,636 |
| State net economic loss carryforward | 208 | 285 |
| Premises and equipment | 202 | 184 |
| Unrealized (gains) losses on securities available for sale, net | 193 | (129) |
| Other, net | 186 | 52 |
| Total deferred tax assets | 2,610 | 3,223 |
| Valuation allowance for deferred tax assets | (124) | (120) |
| Net of valuation allowance deferred tax asset | 2,486 | 3,103 |
| **Deferred tax liabilities:** | | |
| Accrued pension | (297) | (245) |
| Deferred loan fees | (52) | (89) |
| Other | (7) | (10) |
| Total deferred tax liabilities | (356) | (344) |
| Net deferred tax assets | 2,130 | 2,759 |
| Tax receivable, net | 19 | 266 |
| Deferred tax assets and taxes receivable, net | $ 2,149 | $ 3,025 |

The Company measures deferred income tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The Company has federal net operating loss carry-forwards of approximately $4.1 million at December 31, 2021, which can be used to offset future taxable income, subject to certain Section 382 limitations. Management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant objective piece of positive evidence is that the Company is passing the 3-year cumulative income test, because of profits during 2021, 2020 and 2019. Additional positive evidence includes projected future net income and the federal loss carry-forwards do not start to expire until 2027. Management has evaluated all positive and negative evidence regarding the deferred tax assets and determined that it was more likely than not they will realize the deferred tax assets. A valuation allowance is not needed as of December 31, 2021, except for amounts pertaining to the Company's state net operating losses. Accordingly, a valuation allowance has been established for these state loss carry-forward amounts.

The last tax year audited by the Internal Revenue Service was 2006; tax years 2019 – 2021 are open for audit under the statute of limitations. The Company has analyzed the tax position taken or expected to be taken in its tax returns and has concluded it has no uncertain tax positions.

## 12. EMPLOYEE BENEFIT PLANS

The Bank sponsors a noncontributory defined benefit cash balance pension plan (the "Cash Balance Plan"), covering all employees who qualify under length of service and other requirements. Under the Cash Balance Plan, retirement benefits are based on years of service and average earnings. The Bank's funding policy is to contribute amounts to the Cash Balance Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), plus such additional amounts as the Bank may determine to be appropriate. No contributions were made to the Cash Balance Plan paid during the years ended December 31, 2021 and 2020. The Cash Balance Plan was fully funded as of December 31, 2021. The measurement date for the Cash Balance Plan is December 31 and prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants.

It is expected that the Bank will not contribute to the Cash Balance Plan during 2022.

The following table shows the type of assets held in the Cash Balance Plan:

| Asset Category | As of December 31, 2020 | 2020 |
|---|---|---|
| Equity securities | 57.5% | 60.3% |
| Debt securities | 41.2% | 38.7% |
| All other assets | 1.3% | 1.0% |
| Total | 100.0% | 100.0% |

The Bank sponsors a nonqualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is unfunded, provides certain individuals with pension benefits, outside the Bank's noncontributory defined-benefit Cash Balance Plan, based on average earnings, years of service and age at retirement. Participation in the SERP is at the discretion of the Bank's Board of Directors. The Company and Bank purchased bank owned life insurance ("BOLI") in 2002 in the aggregate amount of approximately $12.9 million face value covering all the participants in the SERP. Increases in the cash surrender value of BOLI policies totaled $0.3 million for the years ended December 31, 2021 and 2020. The cash surrender value of the BOLI owned by the Bank was $9.8 million and $9.5 million as of December 31, 2021 and 2020, respectively. The Bank has the ability and the intent to keep this life insurance in force indefinitely. The insurance proceeds may be used, at the sole discretion of the Bank, to fund the benefits payable under the SERP.

Since there are no assets in the SERP, contributions are equal to the benefits paid. It is expected that $0.2 million will be paid in benefits during 2022.

The SERP and the Cash Balance Plan service cost components of the net periodic benefit cost reflected in salaries and employee benefits expense and the remaining net periodic benefit cost components reflected in other expenses for the years ended December 31, 2021 and December 31, 2020 were:

| | Cash Balance Plan | | SERP | | Total | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| **Components of Net Periodic Pension Cost:** | | | | | | |
| Service cost | $ 108 | $ 106 | $ - | $ - | $ 108 | $ 106 |
| Interest cost | 107 | 152 | 34 | 51 | 141 | 203 |
| Expected return on plan assets | (479) | (449) | - | - | (479) | (449) |
| Amortization of prior service cost and recognized net actuarial gain | 112 | 107 | 54 | 38 | 166 | 145 |
| Net periodic pension cost | $ (152) | $ (84) | $ 88 | $ 89 | $ (64) | $ 5 |

The following table shows the change in the projected benefit obligations and plan assets for the years ended December 31, 2021 and 2020:

| | Cash Balance Plan | | SERP | | Total | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| **Change in Projected Benefit Obligations:** | | | | | | |
| Benefit obligation at beginning of year | $ 6,509 | $ 5,994 | $ 2,030 | $ 1,950 | $ 8,539 | $ 7,944 |
| Service cost | 107 | 106 | - | - | 107 | 106 |
| Interest cost | 107 | 152 | 34 | 51 | 141 | 203 |
| Actuarial (gain) loss | (135) | 635 | (34) | 183 | (169) | 818 |
| Benefits and expenses paid | (265) | (378) | (154) | (154) | (419) | (532) |
| Benefit obligation at end of year | 6,323 | 6,509 | 1,876 | 2,030 | 8,199 | 8,539 |
| **Change in Plan Assets:** | | | | | | |
| Fair value of plan assets at beginning of year | 7,245 | 6,859 | - | - | 7,245 | 6,859 |
| Actual return on plan assets | 711 | 764 | - | - | 711 | 764 |
| Employer contributions | - | - | 154 | 154 | 154 | 154 |
| Benefits and expenses paid | (265) | (378) | (154) | (154) | (419) | (532) |
| Fair value of plan assets at year end | 7,691 | 7,245 | - | - | 7,691 | 7,245 |
| Funded status | $ 1,368 | $ 736 | $ (1,876) | $ (2,030) | $ (508) | $ (1,294) |

The Bank had a prepaid asset for the Cash Balance Plan of $1.4 million and $0.7 million at December 31, 2021 and 2020, respectively. The prepaid asset is carried in Other Assets within the Consolidated Balance Sheets. The accrued liability and accumulated benefits obligations for the SERP was $1.9 million and $2.0 million at December 31, 2021 and 2020, respectively. The balance is included in Other Liabilities within the Consolidated Balance Sheets.

The amounts in accumulated other comprehensive loss that have not been recognized as components of net periodic pension cost were:

| | Cash Balance Plan | | SERP | | Total | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Unrecognized net actuarial loss | $ 1,227 | $ 1,706 | $ 698 | $ 786 | $ 1,925 | $ 2,492 |
| Unrecognized prior service cost | - | - | - | - | - | - |
| **Total amount included in accumulated other comprehensive loss** | $ 1,227 | $ 1,706 | $ 698 | $ 786 | $ 1,925 | $ 2,492 |
| **Weighted average assumptions as of December 31:** | | | | | | |
| Discount rate | 2.25% | 1.75% | 2.25% | 1.75% | | |
| Expected return on plan assets | 7.00% | 7.00% | n/a | n/a | | |
| Rate of compensation increase | 3.00% | 3.00% | n/a | n/a | | |

Amounts in accumulated other comprehensive loss expected to be recognized in net periodic costs in 2022:

| *(Dollars in Thousands)* | Cash Balance Plan | SERP | Total |
|---|---|---|---|
| Net actuarial loss | $ 58 | $ 49 | $ 107 |
| Prior service cost | - | - | - |
| Total expected to be recognized | $ 58 | $ 49 | $ 107 |
| **Assets expected to be returned to the Company in 2022** | $ - | $ - | $ - |

The estimated expected benefits payments for the Cash Balance Plan and SERP are:

| *(Dollars in thousands)*<br>For the Years Ending December 31: | Cash Balance Plan | SERP | TOTAL |
|---|---|---|---|
| 2022 | $ 850 | $ 154 | $ 1,004 |
| 2023 | 565 | 150 | 715 |
| 2024 | 379 | 147 | 526 |
| 2025 | 468 | 142 | 610 |
| 2026 | 393 | 138 | 531 |
| 2027-2031 | 2,200 | 621 | 2,821 |
| Total | $ 4,855 | $ 1,352 | $ 6,207 |

***Retirement Plan Assets***— In general, the Cash Balance Plan's investment management organizations make reasonable efforts to control market fluctuations through appropriate techniques including, but not limited to, adequate diversification. The specific investment strategy adopted by the plan referred to as the Long-Term Growth of Capital Strategy, attempts to achieve long-term growth of capital with little concern for current income. Typical investors in this portfolio have a relatively aggressive investment philosophy, seeking long-term growth, and are not looking for current dividend income.

Prohibited investments include commodities and futures contracts, private placements, options, transactions which would result in unrelated business taxable income, and other investments prohibited by ERISA.

The target range of allocation percentages for each major category of plan assets was:

| Asset Category | Target Weight | Minimum Weight | Maximum Weight |
|---|---|---|---|
| Cash | 2% | 0% | 15% |
| Equities: | | | |
| US | 49% | 35% | 63% |
| Non-US | 6% | 0% | 12% |
| Fixed Income | 43% | 31% | 59% |

Equity investments must be listed on the New York, American, NASDAQ, or other similar stock exchanges traded in the over-the-counter market with the requirement that such stocks have adequate liquidity relative to the size of the investment.

Fixed income investments must have a credit rating of B or better from Standard and Poor's or Moody's. The fixed income portfolio should be constructed so as to have an average maturity not exceeding 10 years. No more than 5% of the fixed income portfolio should be invested in any one issuer. U.S. Treasury and Agency securities are exempt from this restriction.

Cash and equivalent instruments that are acceptable are repurchase agreements, bankers' acceptances, U.S. treasury bills, money market funds, and certificates of deposit.

The portfolio shall be structured to meet financial objectives over a period of 11 or more years. Over that time horizon, the total rate of return should equal at least 103% of the applicable blended benchmark returns and place in the top half of group performance. Benchmarks which may be used for portfolio performance comparison are as follows:

- U.S. Large Cap Equities: S&P 500, Russell 1000, Russell 1000 Value, Russell 1000 Growth, S&P 500/Citi Value, and S&P 500/Citi Growth
- U.S. Mid Cap Equities: S&P 400 Mid Cap, Russell Mid Cap Value, Russell Mid Cap Growth, S&P MidCap 400 Value, and S&P MidCap 400 Growth
- U.S. Small Cap Equities: Russell 2000, Russell 2000 Value, Russell 2000 Growth, S&P SmallCap 600, S&P SmallCap 600 Value, and S&P SmallCap 600 Growth
- Non-U.S. Equities: MSCI EAFE, and MSCI EM
- Fixed Income: Barclays Capital Intermediate Govt/Corp, Barclays Capital U.S. Aggregate Bond, Barclays Capital U.S. Govt. Intermediate, BarCap U.S. Corporate High Yield and ML Global Govt.
- Real Estate: FTSE NAREIT AII REITs
- Cash: U.S. 3-Month Treasury Bill

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels were:

| **December 31, 2021**<br>*(Dollars in thousands)*<br>**Asset Category** | **Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Level 2 Significant other Observable Inputs (Level 2)** | **Level 3 Significant Unobservable Inputs (Level 3)** |
|---|---|---|---|
| Cash | $ 68 | $ - | $ - |
| Money market fund | - | 31 | - |
| Equity Securities: | | | |
| Large-Cap | 2,314 | - | - |
| Mid-Cap | 1,016 | - | - |
| Small-Cap | 644 | - | - |
| Global and International | 448 | - | - |
| Fixed Income-Bonds | - | 1,813 | - |
| Other | 1,357 | - | - |
| Total | $ 5,847 | $ 1,844 | $ - |

| **December 31, 2020**<br>*(Dollars in thousands)*<br>**Asset Category** | **Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Level 2 Significant other Observable Inputs (Level 2)** | **Level 3 Significant Unobservable Inputs (Level 3)** |
|---|---|---|---|
| Cash | $ 39 | $ - | $ - |
| Money market fund | - | 32 | - |
| Equity Securities: | | | |
| Large-Cap | 2,062 | - | - |
| Mid-Cap | 1,025 | - | - |
| Small-Cap | 780 | - | - |
| Global and International | 507 | - | - |
| Fixed Income-Bonds | - | 1,506 | - |
| Other | 1,294 | - | - |
| Total | $ 5,707 | $ 1,538 | $ - |

***401(k) Plan*** —The Bank sponsors a 401(k) plan. Participation in the 401(k) plan is voluntary. Employees become eligible after completing 90 days service and attaining age 21. Employees may elect to contribute up to 80% of their compensation to the 401(k) plan. The Bank matches 100% of each employee's contribution, up to a maximum of 6% of compensation. The Bank's contribution to the 401(k) plan was $0.2 million in each of the years ended December 31, 2021 and 2020.

***Post-retirement Benefits*** —The Bank provides certain post-retirement benefits to select former executive officers. As of December 31, 2021 and 2020, the amount of the liability for these benefits was approximately $0.1 million.

***Split Dollar Benefits*** —In 2002, upon investing in BOLI policies, the Company granted certain executives a split dollar life benefit by which the beneficiaries of the executive would receive a portion of the non-cash surrender value death benefit of the BOLI upon the executive's demise. Thereafter, amounts are accrued by a charge to employee benefits. As of December 31, 2021 and 2020, $0.2 million was recorded in Other Liabilities for the split dollar benefit.

## 13. STOCK-BASED COMPENSATION

On October 8, 2021, the Company granted 33,500 stock options to certain Bank officers at a fair market value of $7.45 per share, which was the closing price of the Company's common stock on that date. The Company recorded total stock-based compensation expense of $8 thousand for the year ended December 31, 2021. The Company recognized $2 thousand of income tax benefits related to stock-based compensation expense in the income statement for the year ended December 31, 2021.

At December 31, 2021, the sole equity-based compensation plan for the Company was M&F Bancorp, Inc. Long-Term Stock Incentive Plan ("Incentive Plan"), which was approved by shareholders on June 1, 2021. As of December 31, 2021, the Incentive Plan had 116,000 shares remaining available for grants.

The Equity Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Equity Plan allows for grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity awards to employees have been in the form of stock options, which vest 25% per year beginning one year from date of grant. No vested options may be exercised more than 10 years after date of grant. Upon forfeiture, any previously recognized compensation cost is reversed. Upon a change in control (as defined in the Incentive Plan), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

In addition to employee equity awards, the Company's practice is to grant non-qualified options to non-employee directors. On October 8, 2021, the Company granted 13,000 non-qualified options to the Board of Directors at fair market value of $7.45 per share, which was the closing price of the Company common stock on that date. The Company recorded total stock-based compensation expense of $3 thousand for the year ended December 31, 2021. There was no realized tax benefit related to the non-qualified options expense in the income statement for the year ended December 31, 2021. The expense associated with the director grants is grouped with "Director Fees" on the Consolidated Statements of Operations.

The Company recognizes compensation expense for stock option and non-qualified options on a straight-line basis over the vesting service period for each incremental award. Compensation expense is based on the estimated number of stock awards that will ultimately vest.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations.

The following table presents information regarding the activity during 2021 related to the Company's outstanding stock options.

| | Shares | Exercise Price Per Share |
|---|---|---|
| Non-qualified Options | | |
| Outstanding, December 31, 2020 | - | $ - |
| Granted during the period | 13,000 | 7.45 |
| Outstanding, December 31, 2021 | 13,000 | $ 7.45 |
| | | |
| Stock Options | | |
| Outstanding, December 31, 2020 | - | $ - |
| Granted during the period | 33,500 | 7.45 |
| Outstanding, December 31, 2021 | 33,500 | $ 7.45 |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Outstanding Options | | | Exercisable Options | |
| | Shares | Weighted Average Remaining Contractual Life (Years) | Weighted Average Price | Shares | Weighted Average Price |
| Exercise Price | | | | | |
| Non-qualified Options | | | | | |
| $7.45 | 13,000 | 9.78 | $ 7.45 | - | $ 7.45 |
| Stock Options | | | | | |
| $7.45 | 33,500 | 9.78 | $ 7.45 | - | $ 7.45 |

Total unrecognized compensation expense and unrecognized options expense recorded under director fees as of December 31, 2021 amounted to $0.1 million and $45 thousand, respectively. The Company expects to record $31 thousand and $12 thousand of compensation expense and options expenses recorded under director fees, respectively, during the next 12 months related to these nonvested awards that are outstanding at December 31, 2021.

## 14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain of the Company's and Bank's directors and executive officers, including immediate family members and companies in which they have an interest, are loan customers. Those transactions do not involve more than the normal risk of collection, nor do they present any unfavorable features. Total loans to such groups totaled $2.7 million and $1.7 million as of December 31, 2021 and 2020, respectively. Unused lines available to be drawn were $68 thousand and $58 thousand as of December 31, 2021 and 2020, respectively.

| *(Dollars in thousands)* | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Beginning Balance | $ 1,695 | $ 1,385 |
| Draws/Advances | 1,265 | 413 |
| Repayments | (230) | (103) |
| Ending Balance | $ 2,730 | $ 1,695 |

The Bank leases land for one of its branch locations from a family of shareholders. Terms and conditions of the lease were based on market conditions. Lease payments totaled $39 thousand during the years ended December 31, 2022 and 2021.

## 15. REGULATORY MATTERS AND RESTRICTIONS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may initiate certain mandatory and the possibility of additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Company and the Bank met all capital adequacy requirements to which they are subject. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 leveraged ratios as set forth in the table below.

| *(Dollars in thousands)* | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **Total capital (to risk weighted assets)** | | | | | | |
| Company | $ 46,673 | 21.20 % | $ 17,616 | 8.00 % | n/a | n/a |
| Bank | 46,190 | 20.97 | 17,625 | 8.00 | $ 22,031 | 10.00 % |
| **Tier 1 (to risk weighted assets)** | | | | | | |
| Company | $ 44,380 | 20.15 % | $ 13,212 | 6.00 % | n/a | n/a |
| Bank | 43,897 | 19.92 | 13,219 | 6.00 | $ 17,625 | 8.00 % |
| **Common Equity Tier 1** | | | | | | |
| Company | $ 27,078 | 12.30 % | $ 9,909 | 4.50 % | n/a | n/a |
| Bank | 43,897 | 19.92 | 9,914 | 4.50 | $ 14,320 | 6.50 % |
| **Tier 1 (to average total assets)** | | | | | | |
| Company | $ 44,380 | 11.96 % | $ 14,843 | 4.00 % | n/a | n/a |
| Bank | 43,897 | 11.83 | 14,842 | 4.00 | $ 18,553 | 5.00 % |

| *(Dollars in thousands)* | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **Total capital (to risk weighted assets)** | | | | | | |
| Company | $ 25,955 | 13.32 % | $ 15,591 | 8.00 % | n/a | n/a |
| Bank | 25,800 | 13.23 | 15,600 | 8.00 | $ 19,500 | 10.00 % |
| **Tier 1 (to risk weighted assets)** | | | | | | |
| Company | $ 23,516 | 12.07 % | $ 11,693 | 6.00 % | n/a | n/a |
| Bank | 23,360 | 11.98 | 11,700 | 6.00 | $ 15,600 | 8.00 % |
| **Common Equity Tier 1** | | | | | | |
| Company | $ 23,516 | 12.07 % | $ 8,770 | 4.50 % | n/a | n/a |
| Bank | 23,360 | 11.98 | 8,775 | 4.50 | $ 12,675 | 6.50 % |
| **Tier 1 (to average total assets)** | | | | | | |
| Company | $ 23,516 | 7.80 % | $ 12,064 | 4.00 % | n/a | n/a |
| Bank | 23,360 | 7.74 | 12,066 | 4.00 | $ 15,083 | 5.00 % |

Under Basel III standards and capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital standards require minimum ratios of "Common Equity Tier 1" capital to total risk-weighted assets, "Tier 1" capital to total risk-weighted assets, and total capital to risk-weighted assets of 4.50%, 6.00% and 8.00%, respectively. Common Equity Tier 1 capital is comprised of common stock and related surplus, plus retained earnings, and is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. Tier 1 capital is comprised of Common Equity Tier 1 capital plus Additional Tier 1 Capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is the ALLL. Risk-weighted assets refer to on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FRB and FDIC regulations.

In addition to the risk-based capital requirements described above, the Company and Bank are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution's composite ratings as determined by its regulators. Neither the Company nor the Bank has been advised of any requirement specifically applicable to it.

## 16. HOLDING COMPANY CONDENSED FINANCIAL INFORMATION

The condensed financial data for the Company (holding company only) was:

| **Condensed Balance Sheets:** *(Dollars in thousands)* | **December 31, 2021** | **2020** |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 541 | $ 237 |
| Investment in subsidiary bank | 42,419 | 23,307 |
| Other assets | 69 | 199 |
| Total Assets | $ 43,029 | $ 23,743 |
| **Liabilities and Stockholders' Equity:** | | |
| Total liabilities | $ 127 | $ 280 |
| Stockholders' equity | 42,902 | 23,463 |
| Total Liabilities and Stockholders' Equity | $ 43,029 | $ 23,743 |

| **Condensed Statements of Operations:** *(Dollars in thousands)* | **For the Years Ended December 31, 2021** | **2020** |
|---|---|---|
| Undistributed net income of subsidiary bank | $ 2,968 | $ 1,206 |
| Income | 11 | - |
| Expenses, net | (196) | (156) |
| Net income | $ 2,783 | $ 1,050 |

| **Condensed Cash Flows:** *(Dollars in thousands)* | **For the Years Ended December 31, 2021** | **2020** |
|---|---|---|
| Cash Flows from operating activities: | | |
| Net income | $ 2,783 | $ 1,050 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Undistributed net income of subsidiary | (2,968) | (1,206) |
| Decrease in other assets | 130 | 320 |
| Increase (decrease) in other liabilities | (153) | 2 |
| Net cash provided by (used in) operating activities | (208) | 166 |
| Investing Activities: | | |
| Dividends from subsidiary | 210 | 250 |
| Capital contribution to subsidiary | (17,000) | (319) |
| Net cash used in investing activities | (16,790) | (69) |
| Financing activities: | | |
| Dividends paid | (209) | - |
| Stock-based compensation expense | 11 | - |
| Issuance of common stock | 198 | 500 |
| Issuance of preferred stock | 17,302 | - |
| Redemption of common stock | - | (618) |
| Net cash provided by (used in) financing activities | 17,302 | (118) |
| Net increase (decrease) in cash and cash equivalents | 304 | (21) |
| Cash and cash equivalents at beginning of year | 237 | 258 |
| Cash and cash equivalents at end of year | $ 541 | $ 237 |

## 17. COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the Consolidated Balance Sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank’s exposure to credit losses in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank utilizes the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the counter parties. Collateral varies and may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk as of December 31, 2021 and 2020, respectively, are commitments to extend credit (including availability of lines of credit), and standby letters of credit. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral deemed necessary by the Bank is based on management's credit evaluation and underwriting guidelines for the particular loan.

The Bank records a reserve for credit commitments that is adjusted through Other liabilities and Other expense in the Consolidated Balance Sheets and Consolidated Statements of Operations, respectively based on (i) the expected probability of funding and (ii) the loss history by loan type as determined in calculating the ALLL. The reserves included in Other liabilities as of December 31, 2021 and 2020 were $21 thousand and $37 thousand, respectively.

Commitments outstanding at December 31, 2020 are summarized in the following table:

| *(Dollars in thousands)* | **Commercial letters of credit** | **Other loan commitments** | **Total commitments** |
|---|---|---|---|
| Less than one year | $ 8 | $ 9,772 | $ 9,780 |
| One to three years | 93 | 2,060 | 2,153 |
| Three to five years | - | 3,620 | 3,620 |
| More than five years | - | 9,295 | 9,295 |
| Total | $ 101 | $ 24,747 | $ 24,848 |

## 18. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The Company bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors.

Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment, OREO, and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

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

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U. S. Agencies, state and municipal bonds and MBS.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

**Assets and Liabilities Measured on a Recurring Basis:**

**Available-for-sale ("AFS") Investment Securities:** Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on nationally recognized securities exchanges, U.S. Treasury securities, and money market funds. Level 2 securities include U.S. Agencies, MBS issued by government sponsored entities, state and municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. The Company did not hold any Level 1 or Level 3 AFS Investment Securities as of December 31, 2021 and 2020.

Assets measured at fair value on a recurring basis as of December 31, 2021 were as follows:

| *(Dollars in thousands)*<br>**Description** | **December 31, 2021** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
|---|---|---|---|---|
| Recurring: | | | | |
| U.S. Treasuries | $ 1,915 | $ - | $ 1,915 | $ - |
| U.S. Agencies | 6,252 | - | 6,252 | - |
| MBS | 53,614 | - | 53,614 | - |
| Municipals | 10,545 | - | 10,545 | - |
| Total | $ 72,326 | $ - | $ 72,326 | $ - |

Assets measured at fair value on a recurring basis as of December 31, 2020 were as follows:

| *(Dollars in thousands)*<br>**Description** | **December 31, 2020** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
|---|---|---|---|---|
| Recurring: | | | | |
| U.S. Agencies | $ 4,487 | $ - | $ 4,487 | $ - |
| MBS | 46,954 | - | 46,954 | - |
| Municipals | 5,576 | - | 5,576 | - |
| Total | $ 57,017 | $ - | $ 57,017 | $ - |

**Assets and Liabilities Measured on a Nonrecurring Basis:**

**Impaired loans:** Impaired loans are evaluated and valued at the time the loan is identified as impaired, and are carried at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans or net present value of expected future cash flows discounted at the loan's effective interest rate. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The value of business equipment, inventory, and accounts receivable collateral is based on net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's selling costs and other expenses. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. The Company records impaired loans as nonrecurring Level 3, because the Company believes the underlying collateral is less than the appraised value.

**OREO:** Foreclosed assets are adjusted to fair value, less estimated carrying costs and costs to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of the carrying value or the fair value, less estimated carry costs and costs to sell. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. The Company records foreclosed assets as nonrecurring Level 3.

Assets measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020 were:

| *(Dollars in thousands)* Description | December 31, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Nonrecurring: | | | | |
| Impaired loans: | | | | |
| Faith-based non-profit | $ 7,214 | $ - | $ - | $ 7,214 |
| Total | $ 7,214 | $ - | $ - | $ 7,214 |

| *(Dollars in thousands)* Description | December 31, 2020 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Nonrecurring: | | | | |
| Impaired loans: | | | | |
| Faith-based non-profit | $ 7,730 | $ - | $ - | $ 7,730 |
| Residential real estate | 14 | - | - | 14 |
| Total | $ 7,744 | $ - | $ - | $ 7,744 |

**Quantitative Information about Level 3 Fair Value Measurements**

| *(Dollars in thousands)* Description | December 31, 2021 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|---|---|---|---|---|
| Nonrecurring: | | | | |
| Impaired loans | $ 7,214 | discounted appraisals; PV of expected cash flows | discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell | 6-20% |
| Total | $ 7,214 | | | |

| *(Dollars in thousands)* Description | December 31, 2020 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|---|---|---|---|---|
| Nonrecurring: | | | | |
| Impaired loans | $ 7,744 | discounted appraisals; PV of expected cash flows | discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell | 6-20% |
| Total | $ 7,744 | | | |

The Company discloses estimated fair values for its significant financial instruments. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

The Company had no transfers between any of the three levels in 2021 or 2020.

Cash and Cash Equivalents: The carrying amount of cash, due from bank, and federal funds sold approximates fair value, and is therefore considered Level 1 input.

Loans (other than impaired), net of allowances for loan losses: Fair values are estimated for portfolios of loans with similar financial characteristics. The majority of the Company's loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded.

The fair value of performing loans is calculated by discounting scheduled cash flows through their individual contractual maturity, using discount rates that reflect the credit risk, overhead expenses, interest rate earned and again, contractual maturity of each loan less credit component. The maturity is based on contractual maturities for each loan, modified as required by an estimate of the effect of historical prepayments and current economic conditions.

For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk, cash flows, and discount rates are judgmentally determined using specific borrower and other available information, and are therefore considered a Level 3 input.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts and are therefore considered Level 1 input.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities and are therefore considered Level 2 input.

Borrowings: The fair value of borrowings is based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings and are therefore considered Level 3 input.

Off-Balance Sheet Instruments: Since the majority of the Company's off-balance sheet instruments consist of non- fee producing variable rate commitments, the Company has determined they do not have a distinguishable fair value.

As of December 31, 2021 and December 31, 2020, the carrying amounts and associated estimated fair value of financial assets and liabilities of the company are as follows:

| *(Dollars in thousands)* | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | | | |
| Cash, cash equivalents and interest-bearing time deposits | $ 44,499 | $ 44,499 | $ 44,499 | $ - | $ - |
| Investment securities available for sale | 72,326 | 72,326 | - | 72,326 | - |
| Loans, net of allowances for loan losses | 229,636 | 230,916 | - | - | 230,916 |
| Accrued interest receivable | 870 | 870 | 870 | - | - |
| **Liabilities:** | | | | | |
| Non-maturity deposits | $ 240,065 | $ 240,065 | $ 240,065 | $ - | $ - |
| Maturity deposits | 76,956 | 76,761 | - | 76,761 | - |
| Other borrowings | 130 | 129 | - | - | 129 |
| Accrued interest payable | 18 | 18 | 18 | - | - |

| *(Dollars in thousands)* | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | | | |
| Cash, cash equivalents and interest-bearing time deposits | $ 48,166 | $ 48,166 | $ 48,166 | $ - | $ - |
| Investment securities available for sale | 57,017 | 57,017 | - | 57,017 | - |
| Loans, net of allowances for loan losses | 184,851 | 188,611 | - | - | 188,611 |
| Accrued interest receivable | 867 | 867 | 867 | - | - |
| **Liabilities:** | | | | | |
| Non-maturity deposits | $ 207,884 | $ 207,884 | $ 207,884 | $ - | $ - |
| Maturity deposits | 72,857 | 73,101 | - | 73,101 | - |
| Other borrowings | 204 | 209 | - | - | 209 |
| Accrued interest payable | 37 | 37 | 37 | - | - |

## 19. PREFERRED STOCK

**SERIES C JUNIOR PARTICIPATING PREFERRED STOCK**

On September 23, 2014, the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of the Company's common stock, to purchase from the Company one one-hundredth of a share of Series C Junior Participating Preferred Stock, par value $0.01 per share, of the Company at a price of $10.00 per one one-hundredth of a share of preferred stock, subject to adjustment as provided in the associated rights agreement. There were no shares issued or outstanding at December 31, 2021 or 2020.

**SERIES D NON-CUMULATIVE PERPETUAL PREFERRED STOCK**

Series D Preferred Stock has a stated value of $1,000.00 and is redeemable after five years at the sole option of the Company, carries no voting rights other than those limited voting rights mandated by North Carolina law and has non-cumulative dividend rights that entitle the holder to share in any dividends declared and paid to common shareholders calculated based on a reference price of $11.5380 per share of Common Stock. These passive investments represent a commitment to support economic growth in African American communities by investing in Black-owned banks, which provide consumer and commercial credit along with other banking services to historically underserved communities. In the ongoing pandemic, communities of color have been disproportionately impacted, and these investments are part of the effort to generate a more inclusive recovery.

## 20. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after that date. Management has reviewed events occurring through March 2, 2022, the date the financial statements were available to be issued, and noted no additional subsequent events requiring accrual or disclosure.

**BOARDS OF DIRECTORS & OFFICERS**

**M&F Bancorp, Inc.**
**Board of Directors**

**James A. Stewart**
*Chair*
Broker/Consultant
Stewart Investment Properties Inc.
Durham, NC

**Connie J. White**
*Vice Chair*
Retired Management Consultant
Durham, NC

**Willie T. Closs Jr., CPA**
Financial Consultant
Durham, NC

**Michael L. Lawrence, CPA**
Chief Financial Officer/Treasurer
Alamance Farmers' Mutual Insurance Company
Graham, NC

**James H. Sills, III**
President/CEO
M&F Bancorp, Inc. and Mechanics and Farmers Bank
Durham, NC

**M&F Bank**
**Board of Directors**

**James A. Stewart***
*Chair*
Broker/Consultant
Stewart Investment Properties Inc.
Durham, NC

**Connie J. White***
*Vice Chair*
Retired Management Consultant
Durham, NC

**Emma S. Allen**
Agent/Owner
State Farm Insurance
Charlotte, NC

**Willie T. Closs Jr.*, CPA**
Financial Consultant
Durham, NC

**Michael L. Lawrence*, CPA**
Chief Financial Officer/Treasurer
Alamance Farmers' Mutual Insurance Company
Graham, NC

**Cedric L. Russell**
Funeral Director and General Manager
Russell Funeral Home
Winston-Salem, NC

**James H. Sills, III***
President/CEO
M&F Bancorp, Inc. and Mechanics and Farmers Bank
Durham, NC

*Executive Committee Member

## Corporate Officers

**James H. Sills, III**
President and CEO

**Randall C. Hall, CPA, CRP, CGMA**
Executive Vice President/Chief Financial Officer & Chief Operations Officer

**Valerie M. Quiett, Esq.**
Senior Vice President/Chief Legal Officer/Corporate Secretary

## Bank Officers

**James H. Sills, III**
President and CEO

**Randall C. Hall, CPA, CRP, CGMA**
Executive Vice President/Chief Financial Officer & Chief Operations Officer

**Percy W. "Pete" Williams**
Senior Vice President/Chief Credit Officer

**Travis C. Rouse**
Senior Vice President/Chief Sales Officer

**Valerie M. Quiett, Esq.**
Senior Vice President/Chief Legal Officer/Corporate Secretary

**Evelyn P. Acree**
Senior Vice President/Business Banker
Winston-Salem, NC

**Tanya Dial-Bethune**
Senior Vice President/Senior Commercial Lender
Charlotte, NC

**Soberina F. Traywick**
Senior Vice President/Senior Commercial Lender
Raleigh, NC

**Daniel L. Bellamy**
Vice President/Business Banker
Durham, NC

**David C. Ekstrom**
Vice President/ IT Director
Durham, NC

**Kathy E. Fox, CPA, CRP, CGMA**
Vice President/Controller
Durham, NC

**Damien Gorham**
Vice President/Senior Commercial Lender
Greensboro, NC

**Richard N. "Skipper" Hines, III**
Vice President/Credit Underwriter Manager
Durham, NC

**Donald Liles**
Vice President/Senior Portfolio Underwriter
Durham, NC

**Karen A. McMillen**
Vice President/Training Coordinator
Durham, NC

**Patricia S. "Patty" Quattromini**
Vice President/Retail Banking Sales and Deposit Operations Manager
Durham, NC

**Keira A. Silver**
Vice President/Loan Operations Manager
Durham, NC

**John Sweeney**
Vice President/Business Banker
Raleigh, NC

**Jorge Montano**
Assistant Vice President/MSB Services Manager
Durham, NC

**Ryan Witte, SPHR, SHRM-SCP**
Assistant Vice President/Human Resources Director
Durham, NC

## Internal Audit & Risk Management

**Ingrid Nelson, CCBCO**
Assistant Vice President/Audit, Compliance and Risk Manager
Durham, NC

**Shelia Winston-Graves**
Assistant Vice President/Compliance and Training Manager
Raleigh, NC

**SHAREHOLDERS' INFORMATION**

## Annual Meeting

M&F Bancorp, Inc., a North Carolina Corporation, will hold its annual meeting of shareholders on Tuesday, June 7, 2022 at 10:00 a.m. local time. At this time, we intend to conduct a hybrid meeting with an option for shareholders to participate virtually. Additional meeting updates and instructions on how to participate either in person or virtually will be provided on the M&F Bank website, www.mfbonline.com in advance of the annual meeting.

## Requests for Information

Requests for information should be directed to Ms. Valerie M. Quiett, Senior Vice President/Chief Legal Officer at M&F Bancorp, Inc., 2634 Durham Chapel Hill Blvd., Suite 101, Durham, NC 27707.

## Independent Auditors

Elliott Davis, PLLC
5410 Trinity Road, Suite 320
Raleigh, North Carolina 27607

## General Counsel

Brooks, Pierce, McLendon,
Humphrey & Leonard, LLP

## Stock Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue, 3rd Floor
Brooklyn, New York 11219
877-777-0800

## Mailing Address

M&F Bancorp, Inc.
2634 Durham Chapel Hill Blvd.
Suite 101
Durham, North Carolina 27707
919-687-7800
800-433-8283

## Internet Address

www.mfbonline.com

Each depositor insured to at least $250,000
Backed by the full faith and credit of the United States government
FDIC
Federal Deposit Insurance Corporation-www.fdic.gov

EQUAL HOUSING LENDER