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PACIFIC WEST BANK

Financial Statements

Years Ended
December 31, 2021
and 2020

delap

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Pacific West Bank

Opinion

We have audited the accompanying financial statements of Pacific West Bank (the Bank), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' 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 auditors' 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Delap LLP

March 9, 2022

Pacific West Bank

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 28,216,790	$ 26,903,543
Interest-bearing time deposits with banks	2,685,000	2,685,000
Investments in debt securities available-for-sale, at fair value	29,743,693	18,116,451
Investments in debt securities held-to-maturity, at amortized cost	6,250,000	3,750,000
Federal Home Loan Bank (FHLB) and TIB stock	954,200	850,500
Loans - net	193,301,943	147,860,714
Deferred tax assets - net	1,525,463	1,661,395
Premises and equipment - net	2,392,446	2,536,226
Cash surrender value of bank-owned life insurance (BOLI)	4,103,918	3,968,149
Operating lease right-of-use asset	2,007,318	2,295,702
Finance lease right-of-use asset	51,672	72,340
Accrued interest receivable and other assets	3,460,320	1,083,882
Total Assets	**$ 274,692,763**	**$ 211,783,902**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	$ 105,877,764	$ 82,210,198
Interest-bearing demand	94,447,532	63,040,485
Savings	11,898,280	9,357,261
Time	19,039,771	15,486,913
Total deposits	231,263,347	170,094,857
Operating lease liability	2,058,661	2,318,258
Finance lease liability	53,368	73,753
FHLB borrowings	5,000,000	5,000,000
Accrued interest payable and other liabilities	1,193,578	521,734
Total liabilities	239,568,954	178,008,602
Stockholders' equity		
Preferred stock - 10,000,000 shares authorized; none issued or outstanding	-	-
Common stock, no-par value - 10,000,000 shares authorized; 2,662,566 and 2,657,254 shares issued and outstanding as of December 31, 2021 and 2020, respectively	41,242,052	41,052,670
Accumulated deficit	(6,027,047)	(7,541,039)
Accumulated other comprehensive income (loss)	(91,196)	263,669
Total stockholders' equity	35,123,809	33,775,300
Total Liabilities and Stockholders' Equity	**$ 274,692,763**	**$ 211,783,902**

The accompanying notes are an integral part of the financial statements.

Pacific West Bank

Statements of Comprehensive Income (Loss)

Years Ended December 31, 2021 and 2020

	2021	2020
Interest income		
Interest and fees on loans	$ 9,414,074	$ 6,158,479
Income from investments in debt securities	535,526	199,124
Interest-bearing deposits	104,735	179,177
Dividend income from FHLB and TIB stock	32,011	7,919
Total interest income	10,086,346	6,544,699
Interest expense		
Interest on interest-bearing deposits	486,343	708,593
Interest on borrowings	56,678	5,259
Total interest expense	543,021	713,852
Net interest income	9,543,325	5,830,847
Provision for loan losses	550,000	777,086
Net Interest Income After Provision for Loan Losses	8,993,325	5,053,761
Noninterest income		
Service charges and fees	141,208	121,998
BOLI net earnings	127,942	64,144
Total noninterest income	269,150	186,142
Noninterest expense		
Salaries and employee benefits	4,655,684	3,773,210
Occupancy	911,849	965,223
Data processing	504,983	383,643
Professional fees	405,422	289,952
Advertising	120,055	93,571
Communications and supplies	96,374	117,560
Travel	52,286	49,969
Insurance	45,650	33,036
Licenses, fees, and permits	32,889	20,445
Other	250,697	313,996
Total noninterest expense	7,075,889	6,040,605
Income (Loss) Before Income Taxes	2,186,586	(800,702)
Provision (benefit) for income taxes	672,594	(179,867)
Net Income (Loss)	$ 1,513,992	$ (620,835)
Other comprehensive income (loss) - unrealized gain (loss) on investments in debt securities available-for-sale, net of tax of $126,399 and $73,985 in 2021 and 2020, respectively	(354,865)	208,290
Total Comprehensive Income (Loss)	$ 1,159,127	$ (412,545)
Basic net income (loss) per common share	$ 0.57	$ (0.23)
Diluted net income (loss) per common share	$ 0.57	$ (0.23)

The accompanying notes are an integral part of the financial statements.

Pacific West Bank

Statements of Stockholders' Equity

Years Ended December 31, 2021 and 2020

	Common Stock		Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Deficit	Income (Loss)	Equity
Balances - December 31, 2019	2,652,856	40,894,460	(6,920,204)	55,379	34,029,635
Stock-based compensation - net	4,398	158,210	-	-	158,210
Net loss	-	-	(620,835)	-	(620,835)
Other comprehensive income - net	-	-	-	208,290	208,290
Balances - December 31, 2020	2,657,254	41,052,670	(7,541,039)	263,669	33,775,300
Stock-based compensation - net	5,312	189,382	-	-	189,382
Net income	-	-	1,513,992	-	1,513,992
Other comprehensive loss - net	-	-	-	(354,865)	(354,865)
Balances - December 31, 2021	2,662,566	$ 41,242,052	$ (6,027,047)	$ (91,196)	$ 35,123,809

The accompanying notes are an integral part of the financial statements.

Pacific West Bank

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Net income (loss)	$ 1,513,992	$ (620,835)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Provision for loan losses	550,000	777,086
Change in deferred loan fees	156,016	939,154
Depreciation and amortization	437,076	339,793
Stock-based compensation	189,382	158,210
Deferred income taxes	262,331	(206,570)
BOLI net earnings	(127,942)	(64,144)
Changes in certain operating assets and liabilities		
Right-of-use assets and lease liabilities	28,787	38,040
Accrued interest receivable and other assets	(2,384,265)	(532,335)
Accrued interest payable and other liabilities	671,844	334,991
Net cash provided by operating activities	1,297,221	1,163,390
Cash Flows From Investing Activities		
Net decrease in interest-bearing time deposits with banks	-	6,053,587
Purchases of investments in debt securities available-for-sale	(18,635,354)	(11,118,888)
Purchases of investments in debt securities held-to-maturity	(2,500,000)	(3,750,000)
Principal repayment of investments in debt securities available-for-sale	6,288,987	3,570,766
Purchase of FHLB and TIB stock	(103,700)	(739,600)
Net increase in loans	(46,147,245)	(72,794,581)
Purchases of premises and equipment	(34,767)	(137,777)
Purchases of BOLI	-	(4,000,000)
Net cash used by investing activities	(61,132,079)	(82,916,493)
Cash Flows From Financing Activities		
Net increase in deposits	61,168,490	81,578,832
Payments on finance lease liability	(20,385)	(19,856)
Proceeds from FHLB borrowings	-	5,000,000
Net cash provided by financing activities	61,148,105	86,558,976
Net Increase in Cash and Due From Banks	1,313,247	4,805,873
Cash and due from banks - beginning of year	26,903,543	22,097,670
Cash and Due From Banks - End of Year	$ 28,216,790	$ 26,903,543
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for		
Interest	$ 543,217	$ 729,217
Income taxes	$ 58,378	$ 16,866
Non-cash Investing and Financing Activities		
Other comprehensive income (loss) - net	$ (354,865)	$ 208,290

The accompanying notes are an integral part of the financial statements.

1. Description of Business and Summary of Significant Accounting Policies

Description of business

During 2004, Pacific West Bank (the Bank) commenced operations as a state-chartered institution to provide banking services in the State of Oregon. The Bank is a full service business and private bank, providing highly personalized depository and loan services. All decisions are made locally by banking professionals whose mission is to understand the needs of their clients and develop solutions to help them grow while working toward mutual success. The Bank offers a full suite of business banking and commercial lending products with features and flexibility to meet the needs of local businesses. The Bank was formed by local business owners for the community, dedicated to serving the greater Portland metro and building long-term relationships, with locations in West Linn, Lake Oswego, and Portland, Oregon. The Bank is subject to the regulations of certain federal and state agencies and is subject to periodic examinations by those regulatory authorities.

COVID-19

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As the pandemic continues to progress, management of the Bank (Management) is closely monitoring the effect of COVID-19 on all aspects of its business, including borrowers, vendors, and employees.

Basis of accounting and use of estimates

The Bank prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The Bank utilizes the accrual method of accounting which recognizes income when earned and gains, expenses, and losses when incurred. The preparation of financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of income, expenses, gains, and losses during the reporting periods. Actual results could differ from those estimates. The most significant estimates made by Management relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

Subsequent events

Management has evaluated, for potential recognition or disclosure in the financial statements, subsequent events that have occurred through March 9, 2022, which is the date that the financial statements were available to be issued.

Cash and due from banks

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of collection). The Bank maintains balances in correspondent bank accounts, which at times may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks. The Bank has not experienced any losses in such accounts.

Interest-bearing time deposits with banks

Interest-bearing time deposits with banks, with original maturities exceeding three months, are carried at cost, which approximates fair value. The majority of interest-bearing time deposits with banks as of December 31, 2021 and 2020 have original maturities of one to twelve years, and the Bank expects to hold such deposits until maturity.

Investments in debt securities

Investments in debt securities that Management has the positive intent and ability to hold to maturity are classified as held-to-maturity and are reported at cost, adjusted for amortization of premiums and accretion of discounts.

Investments in debt securities that are purchased and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with unrealized gains and losses included in noninterest income.

Investments in debt securities that are not classified as either held-to-maturity or trading are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of the related deferred income tax effect, excluded from earnings and reported as other comprehensive income or loss.

Management determines the appropriate classification of debt securities at the time of purchase. Gains and losses on sales of investment securities are recognized on the trade date and determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. See Note 15 for a description of the Bank's methodologies for determining the fair value of investments in debt securities.

In estimating other-than-temporary impairment (OTTI) losses, Management considers, among other things, (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates, and (4) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. For individual debt securities which the Bank does not intend to sell, and for which it is not more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, the OTTI losses would be evaluated and (1) the portion related to credit losses would be included in earnings as realized losses, and (2) the portion related to market or other factors would be recognized in other comprehensive income or loss. Credit loss is recorded if the present value of expected cash flows is less than the amortized cost. For individual debt securities which the Bank intends to sell or for which it more likely than not will not recover all of its amortized cost, the OTTI is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

For individual debt securities for which credit loss has been recognized in earnings, interest accruals and amortization of premiums and accretion of discounts are suspended when the credit loss is recognized. Interest received after accruals have been suspended is recognized on a cash basis.

During the years ended December 31, 2021 and 2020, the Bank did not recognize any OTTI on its investments in debt securities.

FHLB and TIB stock

As a member of the FHLB system, the Bank is required to maintain a minimum investment in FHLB stock based on specific percentages of its total assets and any outstanding advances. As of December 31, 2021 and 2020, the Bank met its minimum investment by maintaining its minimum investment in the stock of the FHLB of Des Moines. The Bank's investment in FHLB stock was $454,200 and $350,500 as of December 31, 2021 and 2020, respectively.

The Bank's investment in FHLB stock (which has limited marketability) is carried at cost, which approximates fair value. The Bank evaluates its FHLB stock for impairment as needed. The Bank's determination of whether this investment is impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared with the capital stock amount and the length of time any decline has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB. Based on its evaluation, the Bank determined that there was no impairment of its FHLB stock as of December 31, 2021 and 2020.

The Bank's investment in TIB stock (which has limited marketability) is carried at cost, which approximates fair value. The Bank accounts for its investment in TIB stock in accordance with GAAP as described above for FHLB stock. The Bank determined that there was no impairment of its TIB stock as of December 31, 2021 and 2020. The Bank's investment in TIB stock was $500,000 as of December 31, 2021 and 2020.

Loans

Loans are stated at the amount of unpaid principal, reduced by the allowance for loan losses and deferred loan fees.

Interest income on all loans is accrued as earned on the interest method based on daily balances of the principal amount outstanding. Generally, the accrual of interest on loans is discontinued when, in Management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income on loans that have not been fully charged-off is subsequently recognized only to the extent that cash payments are received in excess of outstanding principal until, in Management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status. In accordance with regulatory guidance, cash payments received by the Bank on any loans that were fully charged-off in previous years are credited to the allowance for loan losses to the extent of any previous charge-offs, and any additional cash payments received on such loans are recorded in noninterest income.

The Bank charges fees for originating loans. These fees, net of certain loan origination costs, are deferred and amortized to interest income over the term of the related loan. If the loan is repaid prior to maturity, the remaining unamortized net deferred loan origination fee is recognized in interest income at the time of repayment.

Allowance for loan losses

The allowance for loan losses represents Management's recognition of the assumed risks of extending credit. The allowance is established to absorb known and inherent losses in the loan portfolio as of the balance sheet date. The allowance requires complex subjective judgments as a result of the need to make estimates about matters that are uncertain. The allowance is maintained at a level currently considered adequate to provide for potential loan losses based on Management's assessment of the various factors affecting the portfolio.

The allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Therefore, the Bank cannot provide assurance that, in any particular period, the Bank will not have significant losses in relation to the amount reserved. The allowance is increased by provisions charged to income (or reduced by credits to income) and reduced by loans charged off, net of recoveries. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan is confirmed.

The allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The allowance is allocated to certain loan categories based on the relative risk characteristics, asset classifications, and actual loss experience of the loan portfolio. While Management has allocated the allowance to various loan classes, the allowance is general in nature and is available for the loan portfolio in its entirety.

The Bank's methodology for assessing the appropriate level of the allowance for loan losses consists of applying loss factors to pools of outstanding loan balances segregated by differing loan categories, establishing specific allowances for impaired loans, and establishing an unallocated portion of the allowance. The pooled component covers non-impaired loans and has been developed utilizing historical loss experience and peer group data if adequate historical loss information was not available, adjusted for qualitative factors. The historical loss experience is calculated by portfolio segment and is generally based on the Bank's (or the Bank's peer group's) actual loss history experienced over the most recent three years. Qualitative factors are based on Management's continuing evaluation of various factors underlying the quality of the loan portfolio, including lending policies and procedures, economic conditions, changes in the size and composition of the loan portfolio, experience of lending management, volume of troubled loans, quality of the Bank's loan review system, changes in collateral values, concentration of credit risk, and other external factors including regulatory requirements.

The Bank considers loans to be impaired when Management believes that it is probable that all amounts due will not be collected according to the contractual terms. GAAP requires that impaired loans be valued using 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 loan's underlying collateral, less estimated selling costs.

The Bank primarily measures impairment on impaired loans (typically real estate loans) based on the estimated fair value of the underlying collateral, less estimated selling costs. Accordingly, changes in such estimated collateral values or future cash flows could result in actual losses which differ from those estimated at the date of the balance sheet. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or others involved in selling real estate, in estimating the fair value of real property collateralizing loans. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. In certain other cases, impairment may be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Adjustments due to any changes in estimated collateral values or future cash flows are generally recorded at the time such information is received. Amounts deemed impaired are either specifically allocated for in the allowance for loan losses or recorded as a partial charge-off of the loan balance.

The unallocated portion of the allowance for loan losses is based upon Management's evaluation of various qualitative and environmental factors that are not directly measured in the determination of the pooled and specific allowances. Such factors include uncertainties in economic conditions; changes in the Bank's loan review system, policies, procedures, and personnel; uncertainties in identifying triggering events that directly correlate to subsequent loss rates; risk factors that have not yet manifested themselves in loss allocation factors; changes in the size and composition of the loan portfolio; variations in the level and trend of problem loans; results of third-party reviews; and historical loss experience data that may not precisely correspond to the current portfolio. The unallocated allowance may also be affected by review by the bank regulatory authorities who may require increases or decreases to the unallocated allowance based on their evaluation of the information available to them at the time of their examinations. Accordingly, the unallocated allowance helps to minimize the risk related to the margin of imprecision inherent in the estimation of pooled and specific allowances. Due to the subjectivity involved in the determination of the unallocated portion of the allowance for loan losses, the relationship of the unallocated component to the total allowance for loan losses may fluctuate from period to period.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the accompanying financial statements.

Troubled debt restructurings

A loan is classified as a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulties and the Bank grants a concession to the borrower in the restructuring that the Bank would not otherwise consider. Examples of such concessions include but are not limited to: a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market rates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-amortizations, extensions, deferrals and renewals. TDRs are considered impaired and are individually evaluated for impairment.

The Bank has followed the loan modification criteria within the Coronavirus Aid, Relief and Economic Security Act of 2020 (CARES Act) when determining if a borrower's modification is subject to a TDR classification. Additionally, federal banking regulators issued an interagency statement that includes guidance on accounting for loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets GAAP and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on their contractual payments at the time a modification is implemented. The federal banking agencies confirmed in working with the staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. If it is determined that a modification does not meet the criteria under the CARES Act or interagency guidance to be excluded from TDR classification, the Bank evaluates the loan modifications under its existing TDR framework. The Bank executed loan modification programs to support and provide relief for its borrowers impacted by the COVID-19 pandemic. Loans subject to payment forbearance under the Bank's COVID-19 loan modification programs are not reported as delinquent during the forbearance time period.

Allowance for unfunded loan commitments

The Bank maintains a separate allowance for estimated losses related to unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying the estimated loss factors used in the allowance for loan loss methodology to the expected amount of commitments that will actually require funding. The allowance for unfunded loan commitments totaled $50,000 as of December 31, 2021 and 2020. In accordance with industry practice and regulatory guidance, the allowance for estimated losses related to unfunded loan commitments is included in accrued interest payable and other liabilities in the accompanying balance sheets. Increases (decreases) in the allowance for unfunded loan commitments are recorded in other noninterest expense in the accompanying statements of comprehensive income (loss).

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the shorter of the estimated useful lives of the assets or terms of the leases for leasehold improvements. Depreciation and amortization are included in occupancy expense in the accompanying statements of comprehensive income (loss). The costs of maintenance and repairs are charged to expense as they are incurred, while major expenditures for renewals and betterments are capitalized. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the respective accounts, and the resulting gains or losses are included in operations.

Management reviews premises and equipment for possible impairment whenever facts and circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, Management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to be generated by the asset. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

BOLI

The Bank holds life insurance contracts to cover future benefit expenses. BOLI policies are recorded at their cash surrender value less applicable surrender charges. Changes in cash surrender values are included in noninterest income in the accompanying statements of comprehensive income (loss).

Preferred stock

The Bank's preferred stock is issuable with voting rights, par value, dividend requirements, and other features as determined by the Bank's Board of Directors (the Board). As of December 31, 2021 and 2020, there were no shares of preferred stock issued or outstanding.

Advertising

Advertising costs are generally charged to expense during the year in which they are incurred.

Income taxes

The provision (benefit) for income taxes is based on income and expenses as reported for financial statement purposes using the "asset and liability method" for accounting for deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision (benefit) for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Income tax positions that meet the "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the accompanying 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 income tax benefits would be classified as additional income taxes in the accompanying statements of comprehensive income (loss). There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended December 31, 2021 and 2020.

The Bank files income tax returns in the United States (U.S.) federal and Oregon jurisdictions.

Stock-based compensation

The Bank recognizes as compensation expense all stock-based awards made to employees and Board members. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. Forfeitures are accounted for as they occur. The fair value of stock options is determined using the Black-Scholes valuation model, which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected term of the options, risk-free interest rate, and dividend rates, if applicable.

The Bank's stock-based compensation plan is described more fully in Note 13.

New accounting pronouncements

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology with respect to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity investment securities, and off-balance sheet commitments. In addition, ASU 2016-13 requires credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses rather than a reduction of the carrying amount. ASU 2016-13 also changes the accounting for purchased credit-impaired debt securities and loans. ASU 2016-13 retains many of the disclosure requirements in current GAAP and expands certain disclosure requirements. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Upon adoption, the Bank expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in the assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current policy for other-than-temporary impairment on investment securities available-for-sale will be replaced with an allowance approach. The Bank is reviewing the requirements of ASU 2016-13 and has begun developing and implementing processes and procedures to ensure it is fully compliant with the amendments at the adoption date. At this time, the Bank anticipates the allowance for loan losses will increase as a result of the implementation of ASU 2016-13; however, until its evaluation is complete, the magnitude of the increase will be unknown.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application of and simplify GAAP for other areas of ASC 740 by clarifying and amending existing guidelines. The Bank adopted ASU 2019-12 effective January 1, 2021, and it did not have a material impact on the Bank's financial statements.

2. Investment Securities

Investments in debt securities as of December 31, 2021 and 2020 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months	Estimated Fair Value
2021					
Available-for-Sale					
Mortgage-backed securities	$ 22,831,352	$ 133,415	$ (188,139)	$ (55,891)	$ 22,720,737
Municipal bonds	7,036,281	48,686	(62,011)	-	7,022,956
Total	$ 29,867,633	$ 182,101	$ (250,150)	$ (55,891)	$ 29,743,693
Held-to-Maturity					
Corporate debt	$ 6,250,000	$ 89,585	$ (27,890)	$ -	$ 6,311,695
2020					
Available-for-Sale					
Mortgage-backed securities	$ 16,078,214	$ 315,155	$ (5,448)	$ -	$ 16,387,921
Municipal bonds	1,680,913	47,617	-	-	1,728,530
Total	$ 17,759,127	$ 362,772	$ (5,448)	$ -	$ 18,116,451
Held-to-Maturity					
Corporate debt	$ 3,750,000	$ 16,575	$ (1,200)	$ -	$ 3,765,375

As of December 31, 2021, the Bank held 26 available-for-sale investment securities, of which 15 were in an unrealized loss position, and 13 held-to-maturity securities, of which 6 were in an unrealized loss position. As of December 31, 2020, the Bank held 15 available-for-sale investment securities, of which 2 were in an unrealized loss position, and 8 held-to-maturity investment securities, of which 1 was in an unrealized loss position. Management has evaluated the securities and has determined that the decline in value is temporary and is related to changes in market interest rates since purchase. The declines in value are not related to any company or industry-specific events. With respect to unrealized losses on the above investment securities as of December 31, 2021, management does not have the intent to sell the investment securities and believes that it is more likely than not that the Bank will not have to sell the securities before a recovery of cost. Accordingly, no impairment adjustments for the investment securities have been recorded as of December 31, 2021.

The amortized cost and estimated fair value of investment securities as of December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	4,327,240	4,337,365	5,750,000	5,798,080
Thereafter	25,540,393	25,406,328	500,000	513,615
	$ 29,867,633	$ 29,743,693	$ 6,250,000	$ 6,311,695

As of December 31, 2021 and 2020, no investment securities were pledged to secure deposits of public funds or for other purposes as required or permitted by law.

3. Loans

Loans by portfolio segment as of December 31, 2021 and 2020 consisted of the following:

	2021	2020
One to four family residential construction loans	$ 1,829,333	$ 23,525
Other construction, land development, and other land loans	11,639,447	2,252,543
Home equity lines of credit	1,238,750	2,137,580
One to four family residential, first lien position	12,283,207	12,794,866
One to four family residential, junior lien position	511,574	623,018
Multi-family	27,655,044	19,454,872
Owner occupied commercial real estate	42,563,340	20,319,794
Non-owner occupied commercial real estate	56,763,232	42,370,713
Commercial and industrial	15,026,073	13,327,269
Small Business Administration (SBA) Paycheck Protection Program (PPP)	22,072,570	30,944,150
Consumer	98,489	144,000
Agricultural - land	425,926	-
All other loans	4,637,442	6,204,852
Total	196,744,427	150,597,182
Allowance for loan losses	(2,225,000)	(1,675,000)
Deferred loan fees	(1,217,484)	(1,061,468)
Loans - net	$ 193,301,943	$ 147,860,714

The Bank has lending policies, practices, and procedures in place that are designed to generate loan income within an acceptable level of risk. The Board reviews and approves the Bank's loan policies on an annual basis or when changes and/or additions are recommended to the Board by the Bank's loan administration department. A reporting and review process is provided by Management to the Board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification within the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Loans are underwritten after evaluating and understanding the borrower's loan request. Underwriting standards are designed to promote relationship banking by understanding a borrower's entire banking needs. The Bank examines current and projected cash flows to determine the ability of the borrower to repay its obligation as agreed upon and, secondarily, evaluates the underlying collateral provided by the borrower. The Bank also at times requires guarantees from borrowers to help manage risk.

The Bank additionally obtains an independent third-party review of its loan portfolio on a regular basis for quality and accuracy in underwriting loans. Results of these reviews are presented to Management and the Board's loan committee. The loan review process complements and reinforces the risk identification and assessment decisions made by the Bank's lenders and credit personnel, as well as the Bank's policies and procedures.

The Bank believes that its loan classes are the same as its loan segments. The Bank's loan segments are characterized by different risk factors as described below:

- The one to four family residential construction loan segment and other construction, land development, and other land loans segment include loans for which the loan proceeds are controlled by the Bank and are used exclusively for the improvement of real estate on which the Bank holds a mortgage. One to four family residential construction loans are specifically collateralized by one to four family residences. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, government regulation of real property, general economic conditions, the availability of long-term financing, and the inherent difficulty in estimating both a property's value at the completion of the project and the estimated cost of the project. The Bank attempts to mitigate these risks by adhering to strict underwriting policies, disbursement procedures, and monitoring practices.

- Home equity lines of credit generally have a greater credit risk than other one to four family residential loans because they are secured by mortgages that are usually subordinated to the existing first mortgage on the property, which may or may not be held by the Bank. The Bank attempts to mitigate these risks by adhering to its underwriting policies in evaluating the collateral and the credit worthiness of the borrower.

- One to four family residential loans in the first lien position and junior lien position are collateralized by one to four family residences (e.g., owner occupied properties and non-owner occupied rental units) that may fluctuate in value due to economic or individual performance factors. The Bank's lending policies generally limit the term of one to four family residential loans to 15 years and the maximum loan-to-value ratio on one to four family residential loans to 80%, with appropriate credit enhancement in the form of either mortgage insurance or readily marketable additional collateral if this loan-to-value ratio is exceeded.

- Multi-family loans are secured by multi-family dwelling units (more than four units) and generally provide the Bank an opportunity to receive interest at rates higher than those generally available from one to four family residential lending. However, loans secured by multi-family properties typically are greater in amount and are more difficult to evaluate and monitor, and thus involve a greater degree of risk than one to four family residential mortgage loans. As payments on loans secured by multi-family properties are highly dependent on the successful operation and management of such properties, repayment of such loans may be influenced by adverse conditions in the real estate market or economy.

- Commercial real estate loans in the owner occupied and non-owner occupied segments are secured by such properties as office buildings, retail/wholesale facilities, and other commercial properties. These loans are viewed primarily as cash flow loans, and the repayment of these loans is largely dependent on the successful operation of the related property, particularly if the loan is non-owner occupied. Loan performance may be adversely affected by factors impacting the general economy and conditions specific to the real estate market, such as geographic location and/or property type. The Bank attempts to minimize these risks by generally limiting the maximum loan-to-value ratio to 80% for owner occupied properties and requiring a minimum debt service coverage ratio for non-owner occupied properties. The Bank also scrutinizes the financial condition of the borrower, the quality of the collateral, and the management of the property securing the loan.

- Commercial and industrial loans are generally secured by accounts receivable, inventory, equipment, or other property. Commercial and industrial loans are made based primarily on the historical and projected cash flow of the borrower and, secondarily, on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as forecasted, and collateral securing such loans is often an insufficient source of repayment, because accounts receivable may be uncollectible and inventories and equipment may be obsolete or of limited use. Minimum standards and underwriting guidelines have been established for all commercial loan types.

- SBA PPP loans are loans which are government guaranteed. The CARES Act, which was signed into law on March 27, 2020, authorized the SBA to temporarily guarantee loans under a new loan program called PPP. As a qualified SBA lender, the Bank was automatically authorized to originate PPP loans upon commencement of the program in April 2020. The Consolidated Appropriations Act, which was signed into law on December 27, 2020, renewed and extended the PPP until May 31, 2021. As a result, the Bank began originating PPP loans again in January 2021. The SBA guarantees 100% of PPP loans made to eligible borrowers and the entire amount of the borrower's PPP loan, including any accrued interest, is eligible to be forgiven and repaid by the SBA. PPP loans have: (a) an interest rate of 1%, (b) a two-year loan term to maturity for loans approved by the SBA prior to June 5, 2020 and a five-year maturity for loans approved thereafter; and (c) principal and interest payments deferred for at least six months from the date of disbursement.

- Consumer loans are loans to purchase various items such as automobiles, boats, and recreational vehicles. The terms and rates are established periodically by Management. Consumer loans tend to involve relatively small loan amounts that are spread across many individual borrowers, minimizing the risk of significant loss to the Bank.

- Agricultural - land loans are loans for the acquisition of land. The Bank attempts to minimize this risk by generally limiting the maximum loan-to-value ratio on land loans to 75%. The terms and rates are established periodically by Management.

The Bank's locations and the majority of its customers are located in the greater Portland, Oregon area, and a substantial portion of the Bank's loans are collateralized by real estate in this geographic area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the economic conditions in this market.

The Bank's operations, like those of other financial institutions operating in the Bank's market, are significantly influenced by various economic conditions including local economies, the strength of the real estate market, and the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. Any downturn in the real estate markets could materially and adversely affect the Bank's business, because a significant portion of the Bank's loans are secured by real estate. The Bank's ability to recover on defaulted loans by selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans. Consequently, the Bank's results of operations and financial condition are dependent upon the general trends in the economy and, in particular, the residential and commercial real estate markets. If there is a decline in real estate values, the collateral for the Bank's loans would provide less security. Real estate values could be affected by, among other things, a worsening of economic conditions, an increase in foreclosures, a decline in home sale volumes, and an increase in interest rates. Furthermore, the Bank may experience an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to the Bank given a sustained weakness or a weakening in business and economic conditions generally or specifically in the principal market in which the Bank does business. An increase in the number of delinquencies, bankruptcies, or defaults could result in a higher level of non-performing assets, net charge-offs, and provision for loan losses.

The following tables set forth information for the years ended December 31, 2021 and 2020 regarding activity in the allowance for loan losses by portfolio segment:

2021	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
One to four family residential construction loans	$ 353	$ 27,087	$ -	$ -	$ 27,440
Other construction, land development, and other land loans	33,788	140,804	-	-	174,592
Home equity lines of credit	26,264	(11,000)	-	-	15,264
One to four family residential, first lien position	149,239	(13,920)	-	-	135,319
One to four family residential, junior lien position	2,278	(1,412)	-	-	866
Multi-family	219,079	85,173	-	-	304,252
Owner occupied commercial real estate	238,396	265,654	-	-	504,050
Non-owner occupied commercial real estate	546,592	113,701	-	-	660,293
Commercial and industrial	184,471	10,712	-	-	195,183
SBA PPP	30,944	(8,871)	-	-	22,073
Consumer	22,247	(20,833)	-	-	1,414
Agricultural - land	-	5,426	-	-	5,426
All other loans	87,178	(28,097)	-	-	59,081
Unallocated	134,171	(14,424)	-	-	119,747
Total	$ 1,675,000	$ 550,000	$ -	$ -	$ 2,225,000

2020	Beginning Allowance	Provision (Credit)	Charge-offs	Recoveries	Ending Allowance
One to four family residential construction loans	$ 27,919	$ (27,566)	$ -	$ -	$ 353
Other construction, land development, and other land loans	-	33,788	-	-	33,788
Home equity lines of credit	16,300	9,964	-	-	26,264
One to four family residential, first lien position	99,877	49,362	-	-	149,239
One to four family residential, junior lien position	2,876	(598)	-	-	2,278
Multi-family	107,930	111,149	-	-	219,079
Owner occupied commercial real estate	114,378	124,018	-	-	238,396
Non-owner occupied commercial real estate	273,155	273,437	-	-	546,592
Commercial and industrial	83,777	100,694	-	-	184,471
SBA PPP	-	30,944	-	-	30,944
Consumer	1,440	42,893	(22,086)	-	22,247
All other loans	1,196	85,982	-	-	87,178
Unallocated	191,152	(56,981)	-	-	134,171
Total	$ 920,000	$ 777,086	$ (22,086)	$ -	$ 1,675,000

The following tables present information, by portfolio segment, on loans evaluated individually and collectively for impairment in the allowance for loan losses as of December 31, 2021 and 2020:

2021	Allowance for Loan Losses: Individually Evaluated for Impairment	Allowance for Loan Losses: Collectively Evaluated for Impairment	Allowance for Loan Losses: Total	Recorded Investment in Loans: Individually Evaluated for Impairment	Recorded Investment in Loans: Collectively Evaluated for Impairment	Recorded Investment in Loans: Total
One to four family residential construction loans	$ -	$ 27,440	$ 27,440	$ -	$ 1,829,333	$ 1,829,333
Other construction, land development, and other land loans	-	174,592	174,592	-	11,639,447	11,639,447
Home equity lines of credit	-	15,264	15,264	17,620	1,221,130	1,238,750
One to four family residential, first lien position	-	135,319	135,319	-	12,283,207	12,283,207
One to four family residential, junior lien position	-	866	866	442,500	69,074	511,574
Multi-family	-	304,252	304,252	-	27,655,044	27,655,044
Owner occupied commercial real estate	-	504,050	504,050	-	42,563,340	42,563,340
Non-owner occupied commercial real estate	-	660,293	660,293	-	56,763,232	56,763,232
Commercial and industrial	-	195,183	195,183	-	15,026,073	15,026,073
SBA PPP	-	22,073	22,073	-	22,072,570	22,072,570
Consumer	-	1,414	1,414	-	98,489	98,489
Agricultural - land		5,426	5,426	-	425,926	425,926
All other loans	-	59,081	59,081	-	4,637,442	4,637,442
Unallocated	-	119,747	119,747	-	-	-
Total	$ -	$ 2,225,000	$ 2,225,000	$ 460,120	$ 196,284,307	$ 196,744,427

2020	Allowance for Loan Losses: Individually Evaluated for Impairment	Allowance for Loan Losses: Collectively Evaluated for Impairment	Allowance for Loan Losses: Total	Recorded Investment in Loans: Individually Evaluated for Impairment	Recorded Investment in Loans: Collectively Evaluated for Impairment	Recorded Investment in Loans: Total
One to four family residential construction loans	$ -	$ 353	$ 353	$ -	$ 23,525	$ 23,525
Other construction, land development, and other land loans	-	33,788	33,788	-	2,252,543	2,252,543
Home equity lines of credit	-	26,264	26,264	50,620	2,086,960	2,137,580
One to four family residential, first lien position	-	149,239	149,239	-	12,794,866	12,794,866
One to four family residential, junior lien position	-	2,278	2,278	442,500	180,518	623,018
Multi-family	-	219,079	219,079	-	19,454,872	19,454,872
Owner occupied commercial real estate	-	238,396	238,396	-	20,319,794	20,319,794
Non-owner occupied commercial real estate	-	546,592	546,592	-	42,370,713	42,370,713
Commercial and industrial	-	184,471	184,471	-	13,327,269	13,327,269
SBA PPP	-	30,944	30,944	-	30,944,150	30,944,150
Consumer	-	22,247	22,247	-	144,000	144,000
All other loans	-	87,178	87,178	-	6,204,852	6,204,852
Unallocated	-	134,171	134,171	-	-	-
Total	$ -	$ 1,675,000	$ 1,675,000	$ 493,120	$ 150,104,062	$ 150,597,182

The following tables present, by portfolio segment, the recorded investment in loans by aging category and in total as of December 31, 2021 and 2020:

2021	Days Past Due 30-59	Days Past Due 60-89	Days Past Due 90 or More	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans
One to four family residential construction loans	$ -	$ -	$ -	$ -	$ -	$ 1,829,333	$ 1,829,333
Other construction, land development, and other land loans	-	-	-	-	-	11,639,447	11,639,447
Home equity lines of credit	-	-	-	17,620	17,620	1,221,130	1,238,750
One to four family residential, first lien position	-	-	-	-	-	12,283,207	12,283,207
One to four family residential, junior lien position	-	-	-	-	-	511,574	511,574
Multi-family	-	-	-	-	-	27,655,044	27,655,044
Owner occupied commercial real estate	-	-	-	-	-	42,563,340	42,563,340
Non-owner occupied commercial real estate	-	-	-	-	-	56,763,232	56,763,232
Commercial and industrial	-	-	-	-	-	15,026,073	15,026,073
SBA PPP	-	-	-	-	-	22,072,570	22,072,570
Consumer	-	-	-	-	-	98,489	98,489
Agricultural - land	-	-	-	-	-	425,926	425,926
All other loans	-	-	-	-	-	4,637,442	4,637,442
Total	$ -	$ -	$ -	$ 17,620	$ 17,620	$ 196,726,807	$ 196,744,427

2020	Days Past Due 30-59	Days Past Due 60-89	Days Past Due 90 or More	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans
One to four family residential construction loans	$ -	$ -	$ -	$ -	$ -	$ 23,525	$ 23,525
Other construction, land development, and other land loans	-	-	-	-	-	2,252,543	2,252,543
Home equity lines of credit	-	-	-	50,620	50,620	2,086,960	2,137,580
One to four family residential, first lien position	-	-	-	-	-	12,794,866	12,794,866
One to four family residential, junior lien position	-	-	-	-	-	623,018	623,018
Multi-family	-	-	-	-	-	19,454,872	19,454,872
Owner occupied commercial real estate	-	-	-	-	-	20,319,794	20,319,794
Non-owner occupied commercial real estate	-	-	-	-	-	42,370,713	42,370,713
Commercial and industrial	-	-	-	-	-	13,327,269	13,327,269
SBA PPP	-	-	-	-	-	30,944,150	30,944,150
Consumer	-	-	-	-	-	144,000	144,000
All other loans	-	-	-	-	-	6,204,852	6,204,852
Total	$ -	$ -	$ -	$ 50,620	$ 50,620	$ 150,546,562	$ 150,597,182

Credit quality indicators

The Bank categorizes all loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: quality of management, current financial information, historical payment experience, credit documentation, and geographic and industry risk, among other factors. Loan risk ratings are updated whenever information comes to Management's attention that indicates that a loan's risk has changed. In addition, Management reviews the risk ratings of all loans greater than $400,000 at least annually. The Bank uses the following definitions for risk ratings:

Special Mention – Loans classified as Special Mention have potential weaknesses that deserve Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date.

Substandard – Loans classified as Substandard are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Such loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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.

Loss – Loans classified as Loss are considered uncollectible and of such minimal value that continuance as an asset is not warranted. Loans are charged-off when Management determines that Loss ratings are appropriate.

Loans not meeting the criteria above are considered Pass rated loans.

The following tables present, by portfolio segment, the recorded investment in loans by risk rating as of December 31, 2021 and 2020, based on the most recent rating assigned by Management to each loan:

2021	Pass	Special Mention	Sub-standard	Doubtful	Total
One to four family residential construction loans	$ 1,829,333	$ -	$ -	$ -	$ 1,829,333
Other construction, land development, and other land loans	11,639,447	-	-	-	11,639,447
Home equity lines of credit	1,221,130	-	17,620	-	1,238,750
One to four family residential, first lien position	12,283,207	-	-	-	12,283,207
One to four family residential, junior lien position	69,074	-	442,500	-	511,574
Multi-family	27,655,044	-	-	-	27,655,044
Owner occupied commercial real estate	42,055,159	508,181	-	-	42,563,340
Non-owner occupied commercial real estate	56,763,232	-	-	-	56,763,232
Commercial and industrial	14,981,851	-	44,222	-	15,026,073
SBA PPP	22,072,570	-	-	-	22,072,570
Consumer	98,489	-	-	-	98,489
Agricultural - land	425,926	-	-	-	425,926
All other loans	4,637,442	-	-	-	4,637,442
Total	$ 195,731,904	$ 508,181	$ 504,342	$ -	$ 196,744,427

2020	Pass	Special Mention	Sub-standard	Doubtful	Total
One to four family residential construction loans	$ 23,525	$ -	$ -	$ -	$ 23,525
Other construction, land development, and other land loans	2,252,543	-	-	-	2,252,543
Home equity lines of credit	2,086,960	-	50,620	-	2,137,580
One to four family residential, first lien position	12,606,089	188,777	-	-	12,794,866
One to four family residential, junior lien position	180,518	-	442,500	-	623,018
Multi-family	19,001,798	453,074	-	-	19,454,872
Owner occupied commercial real estate	19,770,645	549,149	-	-	20,319,794
Non-owner occupied commercial real estate	41,883,205	487,508	-	-	42,370,713
Commercial and industrial	13,045,009	49,845	232,415	-	13,327,269
SBA PPP	30,944,150	-	-	-	30,944,150
Consumer	144,000	-	-	-	144,000
All other loans	6,204,852	-	-	-	6,204,852
Total	$ 148,143,294	$ 1,728,353	$ 725,535	$ -	$ 150,597,182

The following tables summarize information related to impaired loans by portfolio segment as of and for the years ended December 31, 2021 and 2020:

	December 31, 2021			For the year ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Home equity lines of credit	$ 17,620	$ 17,620	$ -	$ 31,514	$ -
One to four family residential, junior lien position	442,500	442,500	-	442,500	14,541
Total	$ 460,120	$ 460,120	$ -	$ 474,014	$ 14,541

	December 31, 2020			For the year ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Home equity lines of credit	$ 50,620	$ 50,620	$ -	$ 64,647	$ -
One to four family residential, junior lien position	442,500	442,500	-	110,625	3,955
Total	$ 493,120	$ 493,120	$ -	$ 175,272	$ 3,955

The Bank did not record any new TDR loans during the year ended December 31, 2021. The following table describes the Bank's TDRs, by portfolio segment, during the year ended December 31, 2020:

	Number of contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	End of Period Balance
One to four family residential, junior lien position	2	$ 442,500	$ 444,501	$ 442,500
Total	2	$ 442,500	$ 444,501	$ 442,500

The above modifications were primarily related to extensions of maturity. The Bank had no TDR loans which defaulted in 2021 or 2020 that had been modified within the previous twelve months. As of December 31, 2021, there were no commitments to lend additional funds on TDR loans.

The following tables set forth the Bank's TDR loans as of December 31, 2021 and 2020 by interest accrual status:

2021	Accruing	Non-Accrual	Total
Home equity lines of credit	$ -	$ 17,620	$ 17,620
One to four family residential, junior lien position	442,500	-	442,500
Total	$ 442,500	$ 17,620	$ 460,120

2020	Accruing	Non-Accrual	Total
Home equity lines of credit	$ -	$ 50,620	$ 50,620
One to four family residential, junior lien position	442,500	-	442,500
Total	$ 442,500	$ 50,620	$ 493,120

4. Premises and Equipment

Premises and equipment as of December 31, 2021 and 2020 consisted of the following:

	2021	2020
Land	$ 400,000	$ 400,000
Building and improvements	2,507,620	2,507,620
Furniture, fixtures, and equipment	640,294	630,177
Computer software and hardware	438,936	391,797
Leasehold improvements	161,006	159,582
Work in progress	-	23,914
Total	4,147,856	4,113,090
Less accumulated depreciation and amortization	(1,755,410)	(1,576,864)
Premises and equipment - net	$ 2,392,446	$ 2,536,226

Depreciation and amortization expense related to premises and equipment was $178,547 and $171,182 for the years ended December 31, 2021 and 2020, respectively.

5. Right-of-Use Assets and Lease Liabilities

The Bank leases space for a branch under an operating lease with a company that is partially owned by certain Board members. The lease expires in June 2024 and has an early termination option whereby the Bank can terminate the lease for any reason with 270 days notice. Total rent expense for this related party lease was approximately $87,000 for each of the years ended December 31, 2021 and 2020. In November 2019, the Bank opened a loan servicing office in Portland, Oregon. Monthly rent payments on this operating lease range from $25,522 to $33,331 through April 2028. This lease agreement also includes variable payments based on a percentage of use, which are not determinable at the lease commencement and are not included in the measurement of the operating lease right-of-use asset and operating lease liability. At the end of the initial lease term, the Bank has an option to renew this lease for an additional 5 years. Lease extensions are not reasonably certain, and the Bank generally does not recognize payments occurring during option periods in the calculation of operating lease right-of-use assets and operating lease liabilities. In addition, in June 2019, the Bank entered into a finance lease for office equipment with monthly rent payments of $1,840 through June 2024. The Bank does not have any operating leases with an initial term of 12 months or less.

The table below presents certain information related to the Bank's right-of-use assets and lease liabilities for the years ended December 31, 2021 and 2020:

	2021	2020	Classification in the Statement of Comprehensive Income (Loss)
Operating Lease			
Operating lease costs	$ 433,176	$ 433,176	Occupancy
Variable lease costs	$ 152,406	$ 170,729	Occupancy
Remaining lease term	6.33 years	7.33 years	
Discount rate	2.61%	2.61%	
Finance Lease			
Amortization of right-of-use asset	$ 20,669	$ 20,669	Occupancy
Interest on lease liability	$ 1,695	$ 2,224	Interest on borrowings
Remaining lease term	2.50 years	3.50 years	
Discount rate	2.63%	2.63%	

Operating cash flows paid for operating lease amounts included in the measurement of lease liabilities was $317,029 and $307,795 for the years ended December 31, 2021 and 2020, respectively.

The following table reconciles the undiscounted cash flows for the years presented related to the Bank's lease liabilities as of December 31, 2021:

	Operating Lease	Finance Lease
2022	$ 326,540	$ 22,080
2023	336,336	22,080
2024	346,426	11,040
2025	356,819	-
2026	367,524	-
Thereafter	507,872	-
Total minimum lease payments	2,241,517	55,200
Less: amount of lease payment representing interest	(182,856)	(1,832)
Lease liabilities	$ 2,058,661	$ 53,368

6. Time Deposits

Time deposits that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 aggregated $6,073,842 and $5,279,757 as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, the scheduled annual maturities of time deposits were as follows:

2022	$ 12,740,514
2023	3,275,699
2024	3,015,587
2025	6,611
2026	1,360
Total	$ 19,039,771

7. Other Borrowings

The Bank is a member of the FHLB. As a member, the Bank has a committed line of credit up to 35% and of the Bank's total assets for the years ended December 31, 2021 and 2020. The committed line of credit is subject to the Bank pledging sufficient collateral and maintaining the required investment in FHLB stock. As of December 31, 2021 and 2020, the Bank had outstanding borrowings of $5,000,000 from the FHLB at interest rates ranging from 0.39% to 0.52% and maturing from November 2023 to November 2024. All outstanding borrowings with the FHLB are collateralized by a blanket pledge agreement on the Bank's FHLB stock, any funds on deposit with the FHLB, and certain pledged loans of the Bank. The Bank had loans pledged for collateral of approximately $78,386,000 as of December 31, 2021. As of December 31, 2021, the Bank's maximum available borrowing capacity, given current collateral, borrowings, and the 35% of total assets limitation, was approximately $45,739,000.

As an additional source of liquidity, the Bank has a federal funds borrowing agreement with TIB aggregating $8,400,000 as of December 31, 2021 and 2020. The agreement was unsecured as of December 31, 2021 and 2020. There were no outstanding borrowings under this agreement as of December 31, 2021 or 2020. The Bank also has a letter of credit with TIB for $215,000 which expires April 1, 2022.

The Bank has a borrowing line available with the Federal Reserve Discount Window totaling approximately $6,775,000 and $9,046,000 as of December 31, 2021 and 2020, respectively, which is secured by a portion of the Bank’s loan portfolio. The Bank had no outstanding borrowings on this line as of December 31, 2021 and 2020.

8. Commitments and Contingencies

Off-balance sheet financial instruments

In the ordinary course of business, the Bank has financial instruments with off-balance sheet risk to extend credit to its customers. These financial instruments involve elements of credit and interest-rate risk in excess of amounts recognized in the accompanying balance sheets. As of December 31, 2021 and 2020, the Bank had no commitments to extend credit at below-market interest rates and held no derivative financial instruments.

The Bank's exposure to credit loss for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in underwriting and offering commitments as it does for on-balance sheet financial instruments. As of December 31, 2021, and 2020, outstanding commitments to extend credit totaled approximately $33,521,000 and $33,728,000, respectively.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of fees. 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 applies established credit-related standards and underwriting practices in evaluating the creditworthiness of such obligors. The amount of collateral obtained, if it is deemed necessary by the Bank upon the extension of credit, is based on Management's credit evaluation of the counterparty. Collateral held for commitments varies but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Litigation

In the ordinary course of business, the Bank becomes involved in various litigation proceedings arising from normal banking activities. In the opinion of Management, the ultimate disposition of these actions will not have a material adverse effect on the Bank's financial statements as of and for the year ended December 31, 2021.

9. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2021 and 2020 was as follows:

	2021	2020
Current		
Federal	$ 260,928	$ -
State	149,335	26,703
Total current	410,263	26,703
Deferred	262,331	(206,570)
Total provision (benefit) for income taxes	$ 672,594	$ (179,867)

The provision (benefit) for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The nature of the differences in 2021 and 2020 were as follows:

	2021	2020
Expected federal income tax provision (benefit) at statutory rate	$ 459,183	$ (168,147)
State income taxes, net of federal effect	155,348	(24,609)
Permanent differences	(4,225)	6,958
Other - net	62,288	5,931
Provision (benefit) for income taxes	$ 672,594	$ (179,867)

The components of the net deferred tax assets and liabilities as of December 31, 2021 and 2020 consisted of the following:

	2021	2020
Deferred tax assets		
Allowance for loan losses	$ 596,895	$ 448,928
Stock-based compensation	31,002	20,334
Net operating loss carryforwards (NOLs)	1,041,513	1,485,244
Operating lease liability	528,396	597,449
Unrealized loss on investment securities	32,744	-
Other	87,680	29,358
Total deferred tax assets	2,318,230	2,581,313
Deferred tax liabilities		
Deferred loan fee income	(112,156)	(110,651)
Accumulated depreciation and amortization	(119,900)	(92,840)
Prepaid expenses and other	(13,481)	(31,605)
Unrealized gain on investment securities	-	(93,655)
Operating lease right-of-use asset	(514,385)	(591,167)
Other	(32,845)	-
Total deferred tax liabilities	(792,767)	(919,918)
Deferred tax assets - net	$ 1,525,463	$ 1,661,395

As of December 31, 2021, the Bank has federal and state NOLs available to reduce future federal and state taxable income. As of December 31, 2021, federal NOLs were approximately $4,158,000 and (if not utilized) expire between 2030 and 2038. Federal NOLs generated after the 2018 tax year do not expire. As of December 31, 2021, state NOLs were approximately $3,105,000 and (if not utilized) expire between 2025 and 2035.

The Bank has determined that it is not required to establish a valuation allowance for the net deferred tax assets as of December 31, 2021 and 2020, as Management believes it is more likely than not that the net deferred tax assets will be realized principally through future taxable income and available tax planning strategies to utilize the Bank's deferred tax assets prior to expiration. Management will continue to evaluate its position that it is more likely than not that the net deferred tax assets will be realized and will record a valuation allowance, if needed, in the period in which they determine it is more likely than not that the net deferred tax assets will not be realized.

10. Basic and Diluted Net Income (Loss) Per Common Share

The Bank's basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. The Bank's diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding plus dilutive common shares related to stock options and restricted stock awards. For the years ended December 31, 2021 and 2020, 6,392 and 1,094 dilutive common shares related to unvested restricted stock awards were included in the weighted-average number of common shares outstanding in the calculation for diluted net income (loss) per common share, respectively. For the years ended December 31, 2021 and 2020, average options to purchase 130,267 and 104,599 shares of common stock, respectively, were outstanding but not included in the computation of diluted net income (loss) per common share because their effect would have been anti-dilutive.

The numerators and denominators used in computing basic and diluted net income (loss) per common share for the years ended December 31, 2021 and 2020 are as follows:

	Net Income (Loss) (Numerator)	Weighted average Shares (Denominator)	Per-share Amount
2021			
Basic net income per common share	$ 1,513,992	2,659,237	$ 0.57
Diluted net income per common share	$ 1,513,992	2,665,629	$ 0.57
2020			
Basic net loss per common share	$ (620,835)	2,654,515	$ (0.23)
Diluted net loss per common share	$ (620,835)	2,655,609	$ (0.23)

11. Transactions with Related Parties

Certain directors, officers, and principal shareholders of the Bank (and the companies with which they are associated) are customers of – and have had banking transactions with – the Bank in the ordinary course of the Bank's business. In addition, the Bank expects to continue to have such banking transactions in the future. All loans, and commitments to loan, to such parties are generally made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. In the opinion of Management, these transactions do not involve more than the normal risk of collectability or present any other unfavorable features.

An analysis of activity with respect to such loans for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balances - beginning of year	$ 99,728	$ 398,329
Additions	7,207,446	571,200
Repayments	(3,960,824)	(869,801)
Balances - end of year	$ 3,346,350	$ 99,728

12. Employee Benefit Plan

The Bank has a salary deferral and profit sharing plan (the Plan) under the provisions of Section 401(k) of the Internal Revenue Code whereby eligible employees may defer a portion of their gross wages. Effective January 1, 2021, employees 18 years of age and older are eligible to participate in the Plan. Prior to January 1, 2021, employees eligible to participate in the Plan must have completed 90 days of service and must have been over 21 years of age. Employees may contribute up to the maximum permitted by the Internal Revenue Code. The Bank may make matching and/or discretionary contributions to the Plan as determined by the Board. Matching contributions vest immediately while discretionary contributions vest over a period of three years. For the years ended December 31, 2021 and 2020, the Bank made matching contributions of approximately $127,000 and $111,000, respectively, and elected to make no discretionary contributions.

13. Stock-Based Compensation Plans

In March 2017, the Bank adopted the 2017 Equity Compensation Plan (the 2017 Plan). In addition, in October 2018, the Bank adopted the 2018 Equity Compensation Plan (the 2018 Plan). The 2017 Plan and the 2018 Plan are collectively referred to as "the Plans". The Plans provide for the grant of stock options and restricted stock awards for up to an aggregate of 475,000 shares of the Bank's common stock to certain employees and directors. Under the Plans, the exercise price (for stock options) or the fair value (for restricted stock) of awards granted must be equal to at least the market price of the Bank’s common stock on the date of the grant. Stock options granted under the Plans have a maximum term of ten years. Vesting of stock options and restricted stock awards generally occurs over five years. As of December 31, 2021 and 2020, there were 305,117 and 315,124 shares of common stock available for future grant under the Plans, respectively.

The following table presents the activity related to stock options awarded under the Plans for the years ended December 31, 2021 and 2020:

	2021		2020	
	Options Outstanding	Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Exercise Price
Balances - beginning of year	129,731	$ 14.16	79,466	$ 14.00
Granted	1,071	10.92	50,265	14.41
Balances - end of year	130,802	14.13	129,731	14.16
Exercisable - end of year	41,839	$ 14.10	15,893	$ 14.00

There were 1,071 stock options granted during the year ended December 31, 2021 with an aggregate grant date fair value of $3,750. There were 50,265 stock options granted during the year ended December 31, 2020 with an aggregate grant date fair value of $170,739. The weighted average assumptions used in the Black-Scholes model for stock options granted during the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Risk free interest rate	1.12%	1.71%
Expected life (in years)	6.50	6.50
Expected dividend yield	0.00%	0.00%
Expected volatility	29.67%	18.23%
Grant date fair value per share	$ 3.50	$ 3.40

The risk free interest rate is based on the rate of a U.S. Treasury security with a similar term as the expected life of the stock option at the particular grant date. The expected life is based on vesting terms and estimated exercise dates. Dividends during the expected life are assumed to be zero. To estimate the expected volatility, Management utilized information from a banking index to calculate actual volatility over a period similar to the expected life of the stock options.

As of December 31, 2021 and 2020, there were 88,963 and 113,838 unvested options with an aggregate grant date fair value of $317,951 and $407,551, respectively, all of which the Bank assumes will vest. The unvested options had an aggregate intrinsic value of $2,388 as of December 31, 2021. The unvested options had no aggregate intrinsic value as of December 31, 2020.

Information regarding the range of exercise prices, number, weighted-average exercise price, and weighted-average remaining contractual life of stock options as of December 31, 2021 and 2020 is as follows:

	2021		2020	
	Options Outstanding	Exercisable Options	Options Outstanding	Exercisable Options
Range of exercise prices	$ 10.92-14.45	$ 14.00-14.45	$ 14.00-14.45	$ 14.00
Number of options	130,802	41,839	129,731	15,893
Weighted-average exercise price	$ 14.13	$ 14.10	$ 14.16	$ 14.00
Remaining contractual life (years)	7.4	7.3	8.4	8.0

As of December 31, 2021 and 2020, there was no aggregate intrinsic value of options outstanding. As of December 31, 2021, the total unrecognized compensation expense related to stock option awards was $225,800, which is expected to be recognized over a weighted average period of 1.26 years.

The following table presents the activity related to restricted stock awarded under the Plans for the years ended December 31, 2021 and 2020:

	Number of Shares	Weighted-average Grant Date Fair Value
Unvested as of December 31, 2019	20,650	$ 13.82
Granted	4,750	12.83
Vested	(5,100)	13.83
Forfeited	(105)	14.32
Unvested as of December 31, 2020	20,195	13.59
Granted	8,936	13.76
Vested	(6,029)	13.67
Unvested as of December 31, 2021	23,102	$ 13.63

As of December 31, 2021, the total unrecognized compensation expense related to restricted stock awards was $262,712, which is expected to be recognized over a weighted average period of approximately 1.54 years.

14. Revenue from Contracts with Customers

In accordance with ASC 606, revenues are recognized when goods or services are transferred to a customer in exchange for the consideration the Bank expects to be entitled to receive. The largest portion of the Bank's revenue is from interest income, which is excluded from the scope of ASC 606. All of the Bank's revenue from contracts with customers which is within the scope of ASC 606 is recognized in noninterest income. The Bank recognizes income from the increase in cash surrender value of BOLI, however, this is additionally excluded from the scope of ASC 606.

If a contract is determined to be within the scope of ASC 606, the Bank recognizes revenue as it satisfies a performance obligation. Payments from customers are generally collected at the time services are rendered, monthly, or quarterly. For contracts with customers within the scope of ASC 606, revenue is either earned at a point in time or revenue is earned over time. Revenues recognized within the scope of ASC 606 include service charges and fees, which are fees earned on the Bank's deposit accounts for various products offered to or services performed for the Bank's customers. Fees include business account fees, non-sufficient fund fees, stop payment fees, wire services, safe deposit boxes, and others. These fees are recognized on a daily, monthly, or quarterly basis, depending on the type of service.

For the years ended December 31, 2021 and 2020, substantially all of the Bank's revenues within the scope of ASC 606 are for performance obligations satisfied at a specified date. As of December 31, 2021 and 2020, the Bank had no significant contract liabilities where the Bank had an obligation to transfer goods or services for which the Bank had already received consideration. In addition, the Bank had no material unsatisfied performance obligations as of this date.

15. Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels. These levels are as follows:

Level 1: Fair value of the asset or liability is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect Management's own assumptions regarding the applicable asset or liability.

Certain assets and liabilities are measured at fair value on a recurring or non-recurring basis. Assets and liabilities measured at fair value on a recurring basis are initially measured at fair value and then re-measured at fair value at each financial statement reporting date. Assets and liabilities measured at fair value on a non-recurring basis result from write-downs due to impairment or lower-of-cost-or-market accounting on assets or liabilities not initially measured at fair value.

The Bank's assets measured at fair value on a recurring basis consist of investments in debt securities available-for-sale (mortgage-backed securities and municipal bonds). The fair values of the Bank's mortgage-backed securities and municipal bonds are estimated by an independent pricing service and are based upon market prices of similar securities or other observable inputs (Level 2). As of December 31, 2021 and 2020, the Bank had no liabilities measured at fair value on a recurring basis.

The Bank's assets measured at fair value on a non-recurring basis generally consist of loans. Periodically, the Bank records non-recurring adjustments to the carrying value of certain impaired loans for partial charge-offs of the uncollectible portions of those loans based on fair value measurements. Non-recurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan, and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals, independent fair market value assessments from realtors or other persons involved in selling real estate, or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. As of December 31, 2021 and 2020, the Bank had no assets or liabilities measured at fair value on a non-recurring basis.

GAAP requires disclosure of estimated fair values for certain financial instruments. Such estimates are subjective in nature, and significant judgment is required regarding the risk characteristics of various financial instruments at a discrete point in time. Therefore, such estimates could vary significantly if assumptions regarding uncertain factors were to change. In addition, as the Bank normally intends to hold the majority of its financial instruments until maturity, it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for certain items which are not defined as financial instruments but which may have significant value. The Bank does not believe that it would be practicable to estimate a fair value for these types of items as of December 31, 2021 and 2020. Because GAAP excludes certain items from fair value disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Bank.

The estimated fair values of financial instruments were as follows as of December 31, 2021 and 2020:

	Recorded Amount	Estimated Fair Value	Level 1	Level 2	Level 3
2021					
Financial Assets					
Cash and due from banks	$ 28,216,790	$ 28,216,790	$ 28,216,790	$ -	$ -
Interest-bearing time deposits with banks	2,685,000	2,764,638	201,874	-	2,562,764
Investment in debt securities	35,993,693	36,055,388	-	36,055,388	-
FHLB and TIB stock	954,200	954,200	954,200	-	-
Loans - net	193,301,943	192,212,886	-	-	192,212,886
Accrued interest receivable	776,100	776,100	776,100	-	-
Financial Liabilities					
Time deposits	19,039,771	19,168,471	-	-	19,168,471
Accrued interest payable	11,666	11,666	11,666	-	-
FHLB borrowings	5,000,000	4,905,081	-	4,905,081	-
2020					
Financial Assets					
Cash and due from banks	$ 26,903,543	$ 26,903,543	$ 26,903,543	$ -	$ -
Interest-bearing time deposits with banks	2,685,000	2,842,234	206,518	-	2,635,716
Investment in debt securities	21,866,451	21,881,826	-	21,881,826	-
FHLB and TIB stock	850,500	850,500	850,500	-	-
Loans - net	147,860,714	150,916,081	-	-	150,916,081
Accrued interest receivable	950,312	950,312	950,312	-	-
Financial Liabilities					
Time deposits	15,486,913	15,536,727	-	-	15,536,727
Accrued interest payable	11,862	11,862	11,862	-	-
FHLB borrowings	5,000,000	4,988,928	-	4,988,928	-

The Bank did not have any transfers among Level 1, Level 2, or Level 3 during the years ended December 31, 2021 and 2020.

16. Regulatory Matters

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

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2021 and 2020, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that Management believes have changed the Bank's category.

In September 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio (CBLR) framework, for qualifying community banking organization, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of March 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the CBLR requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The CBLR framework eliminates the requirement for qualifying banking organizations to calculate and report risk-based capital in favor of a single Tier 1 capital to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than the required minimums are considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, are considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the CBLR minimum requirement is 8.0% as of December 31, 2020, 8.5% for the calendar year 2021, and 9.0% for the calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of 7.0% as of December 31, 2020, 7.5% for calendar year 2021, and 8.0% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk weighting framework without restriction. As of December 31, 2021 and 2020, the Bank was a qualifying community banking organization as defined by federal banking agencies and has elected to measure capital adequacy under the CBLR framework.

The Bank's actual and required capital amounts and ratios as of December 31, 2021 and 2020 are presented in the following table (dollars in thousands):

	Actual		**To be "Well Capitalized" under Prompt Corrective Action Provisions (CBLR Framework)**	
	Amount	**Ratio**	**Amount**	**Ratio**
2021				
Tier 1 capital to average total assets	$ 33,690	12.11%	$ 23,646	8.50%
2020				
Tier 1 capital to average total assets	$ 31,851	15.86%	$ 16,063	8.00%