



# ADAPTING FOR OUR Communities

2021 ANNUAL REPORT



Community  
Heritage  
Financial, Inc.



# LETTER TO OUR Shareholders

## Dear Shareholders,

Throughout 2021, Community Heritage Financial (“CHF” or the “Company”) was steadfast in its commitment to adapting to the new normal that our customers and communities have grown accustomed to over the last two years. This has meant something different to every organization; however, at CHF, it has meant innovation and ensuring that our products, services, and processes meet the needs of our ever-evolving customer base. As always, we put our customers first and make every effort to provide the same consistent customer service that has set us apart since 1908. We are proud to say that the innovations implemented in 2021 have proven extremely successful and have helped CHF achieve record earnings.

### Our Customers

Throughout the past year, customer expectations shifted in every industry. The financial services industry was no exception, as it is an industry that is constantly evolving, pandemic or otherwise. In some ways, financial institutions have been preparing for this change in customer

expectations for years. Today, customers continue to seek exceptional service; however, they don’t always want to visit a physical location to receive it. They still want to communicate, but many want to talk through text and email. They still want to purchase homes, but they want to complete as much of the loan process as possible from their couch. They still want to pay friends and family, but they do not want to drive to a branch or an ATM for cash. For each of these wants, there was and will continue to be products and services that must be introduced to meet the customer’s expectations. As you read through this report, you will learn of the many innovations our team introduced over the last year, as well as the impact of those innovations.

### Our Communities

Every community across our footprint faced their own obstacles throughout 2021, and it was encouraging to witness their resilience. Our local non-profits began hosting in-person fundraisers once again. Local business owners made new investments in their



organizations, whether it was growing their teams, opening new facilities, or renovating existing ones. We witnessed strong housing markets, including the addition of new communities and the revitalization of existing ones. Ultimately, this stability prompted great advancement throughout the area and provided CHF many opportunities to support local non-profit partners and provide loan funding for local economic expansion.

#### Our Team

As the Company has grown in assets, locations, and earnings, our team has also grown. Ten years ago, Middletown Valley Bank (“MVB” or the “Bank”), our banking subsidiary, had less than 35 employees. Today, the Bank has over 135 employees and the Company altogether has over 165. The accomplishments of this team over the last decade have been remarkable, but their dedication throughout 2021 was unparalleled. As the world emerged from the chaos of 2020, so many organizations and industries were faced with the challenges of the “Great Resignation.” However, CHF was extremely fortunate to have experienced nominal attrition rates, and great success attracting strong talent to the Company. The key to our success has been the ongoing and momentous focus we place on maintaining our culture of Absolutely Exceptional Experiences.

#### Their Impact on Our Performance

We truly believe CHF’s strong financial performance is a direct result of our team’s dedication to being a strong and stable force in the communities we serve. Total assets reached a record-breaking high of \$817.91 million, which is a 19% increase over the previous year. The Bank achieved 23% deposit growth and 17% in core loan growth, excluding the Paycheck Protection Program (PPP). Millennium Financial Group (“Mlend”), our mortgage lending subsidiary, had a phenomenal year with \$234 million in closed loans. Net income for the Company was \$6.0 million, with earnings per share of \$2.67, as compared to a net income of \$4.1 million

and earnings per share of \$1.83 for the prior year. We are pleased to say our credit quality remains strong with optimal diversity. The continued need for access to PPP funds in the beginning of 2021 provided MVB numerous opportunities to foster new relationships throughout our footprint, which supported the sustainable growth of our core loans and deposits. Our risk management measures, along with our team’s expertise, has allowed us to keep loan delinquency below 0.25% for the entire year and to achieve 0.03% delinquent loans as of December 31, 2021.

At the end of the day, through all the growth and innovation of 2021, the number one priority of the CHF Team was the customer. In many organizations, the customer is viewed as the individual purchasing goods or services, but at Community Heritage Financial, it is always the individual being served at the time. It could be someone cashing their paycheck in one of our branches, someone purchasing their first home, a fellow team member in need of help, or you, our shareholders. It is our belief that when you put the customer first, you always win, every day of the week.

Robert E. (BJ) Goetz, Jr.  
President and Chief Executive Officer

James G. Pierre  
Chairman of the Board



# Financial Highlights

As of and for the years ended December 31  
(dollars in thousands, except ratios and per common share data)

## Earnings Data (\$):

	2021	2020	2019	2018	2017
Net interest income	24,174	19,642	16,602	13,646	10,695
PPP loan interest and fee income (included in net interest income above)	2,785	1,586	-	-	-
Provision for loan losses	3,079	3,253	763	582	637
Non-interest income	7,010	8,265	3,826	1,174	1,025
Non-interest expense	19,899	18,946	16,105	11,569	8,619
Net income	6,015	4,127	2,631	1,968	1,217

## Common Share Data (\$):

Basic earnings per common share	2.67	1.83	1.17	0.88	0.82
Diluted earnings per share	2.67	1.83	1.17	0.88	0.82
Dividends paid per common share	0.16	0.16	0.12	0.09	0.08
Book value per common share (end of period)	25.30	23.52	21.60	20.12	19.42
Tangible book value per common share (end of period)	24.56	22.78	20.86	20.12	19.42
Weighted average common shares outstanding	2,251,320	2,251,320	2,250,064	2,233,820	1,481,593

## Selected Statistical Data (%):

Net interest margin	3.32	3.16	3.63	3.60	2.91
Return on average assets	0.80	0.64	0.55	0.53	0.39
Return on average common equity	10.66	8.08	5.55	4.74	4.17
Efficiency ratio	60.97	67.89	78.84	78.10	73.50

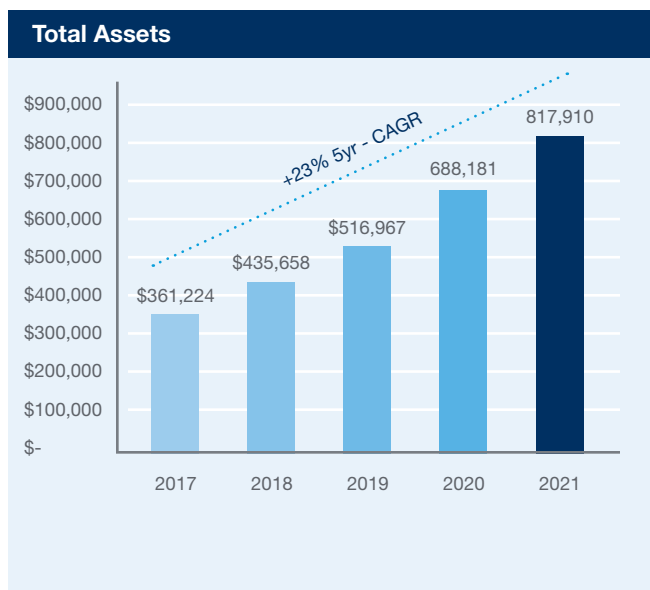
## Financial Condition Data (\$):

Total assets	817,910	688,181	516,967	435,658	361,224
Loans	610,501	558,967	429,335	357,742	283,233
PPP loans (included in loans above)	13,274	50,026	-	-	-
Allowance for loan losses	6,500	7,480	4,235	3,593	3,051
Securities	144,019	72,439	42,641	47,967	47,457
Deposits	736,685	599,560	446,707	388,544	315,934
Borrowings	1,887	8,558	289	-	-
Subordinated debt	14,753	14,664	14,574	-	-
Shareholder's equity	56,955	52,960	48,635	44,944	43,388
Non-performing assets	3,048	1,788	1,856	3,184	4,030

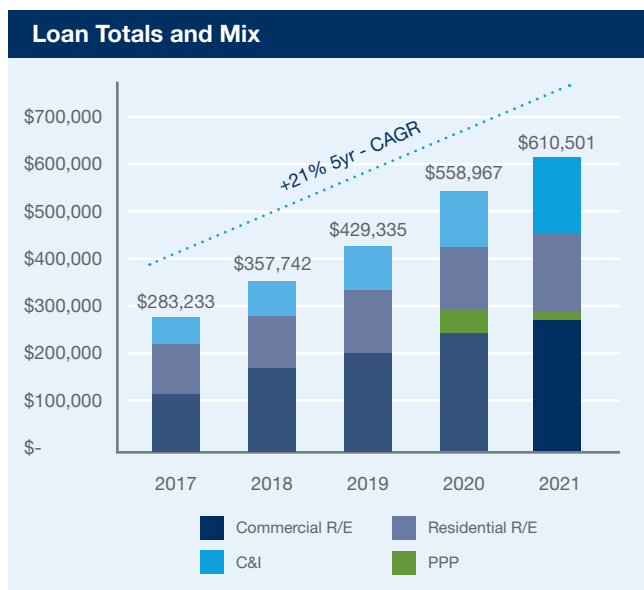
## Ratios (%):

Loans to deposits	82.87	93.23	96.11	92.07	89.65
Allowance for loan losses to total loans	1.06	1.34	0.99	1.00	1.08
Allowance for loan losses to total loans (excl. PPP Loans)	1.09	1.47	-	-	-
Non-performing assets/loans + OREO	0.50	0.35	0.43	0.89	1.42
Non-performing assets/total assets	0.37	0.26	0.36	0.73	1.12
Average shareholders' equity to average total assets	7.54	7.99	9.99	11.20	9.55
Tangible common equity to tangible common assets	7.20	7.74	9.73	11.20	9.55
Tier 1 capital to risk-weighted assets	10.20	-	14.40	13.52	16.40
Total risk-based capital	11.34	-	15.60	14.77	17.68
Tier 1 leveraged capital to total average assets	8.57	-	11.76	10.64	12.62
Community Bank Leverage Ratio (CBLR)	-	9.11	-	-	-

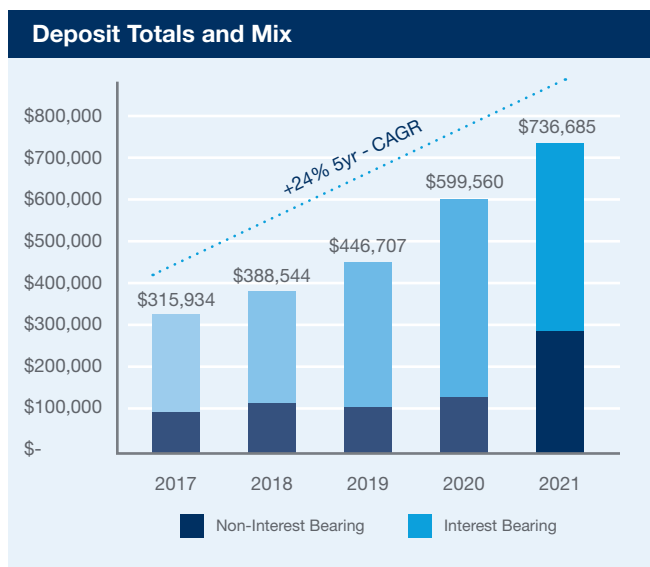
# Management's Discussion and Analysis



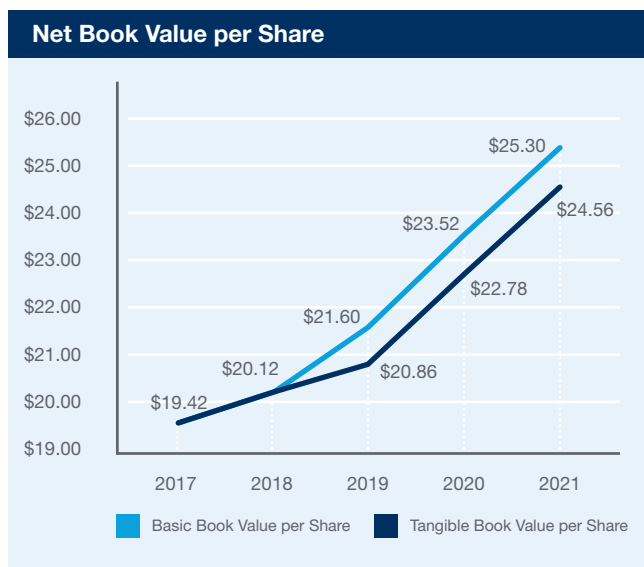
Total assets were \$818 million at December 31, 2021, an increase of \$129.7 million or 19% year over year. Balance sheet growth was driven by loan growth of \$51 million, which included a decrease of \$36.8 million in PPP loan payoffs, and growth in securities of \$71.6 million. The year over year growth was funded by core deposit growth of \$142 million, and net income of \$6 million. The compound five-year annual growth rate for total assets is 23%.



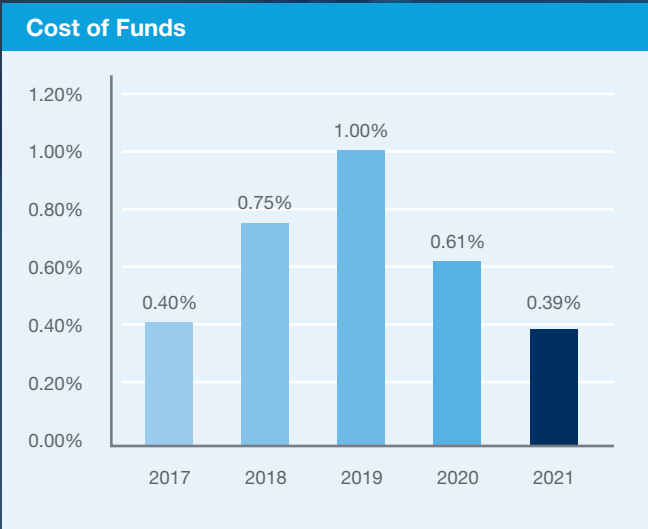
Total loans at December 31, 2021 were \$611 million, comprised of commercial real estate loans of \$273 million (45% of total loans), residential real estate of \$163 million (27% of total loans), C&I of \$172 million (28% of total loans) including PPP loans of \$13 million, consumer loans of \$810 thousand (less than 1% of total loans) and net deferred costs of \$1.6 million (less than 1% of total loans). During 2021, growth in commercial real estate (\$28 million) and C&I (\$31 million) accounted for 71% of total loans, of which PPP loans accounted for only 2% (decreased \$37 million). The five-year compound annual growth rate for the loan portfolio is 21%.



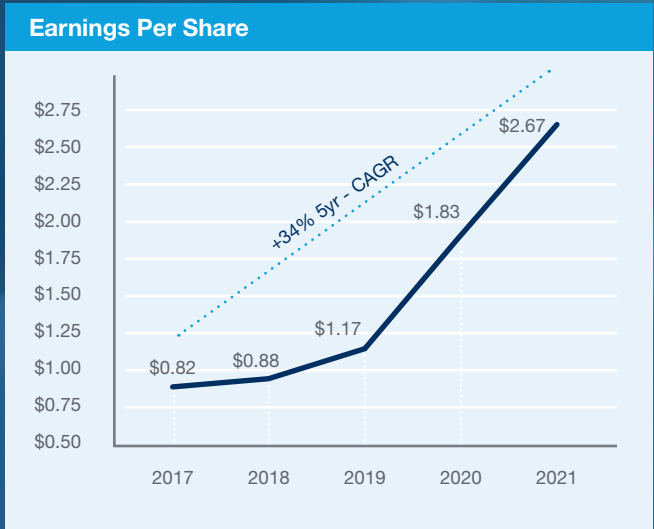
Total deposits were \$737 million at December 31, 2021, an increase of \$137 million or 23% when compared year over year to 2020. Non-interest bearing deposits totaled \$272 million (37% of total deposits) at year-end 2021, up \$75 million, or 37% for the year. Interest-bearing deposits of \$464 million (63% of total deposits) at year-end 2021 increased \$62 million or 45% year over year. The five-year compound annual growth rate is 24%.



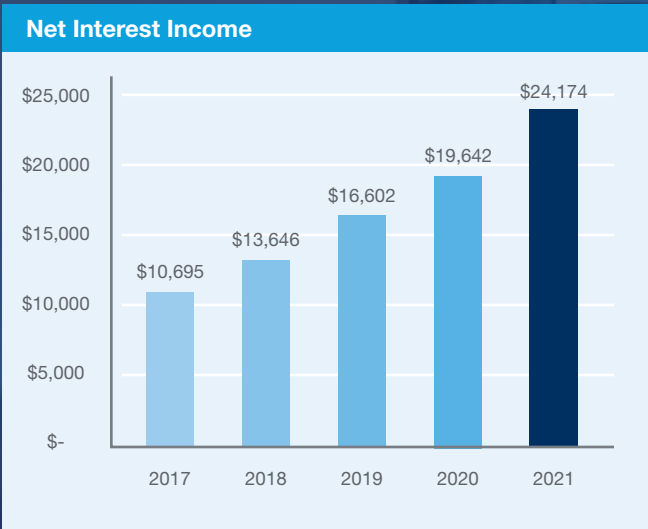
Book value per share increased \$1.78 or 7.57% per share and tangible book value increased \$1.78 or 7.81% per share in 2021. Tangible book value per share excludes goodwill of \$1.7 million (no impairment) and a non-compete net intangible asset of \$695 from the Mlend acquisition in 2019. The increase in common share value is primarily due to increased retained earnings resulting from net income of \$6 million for 2021.



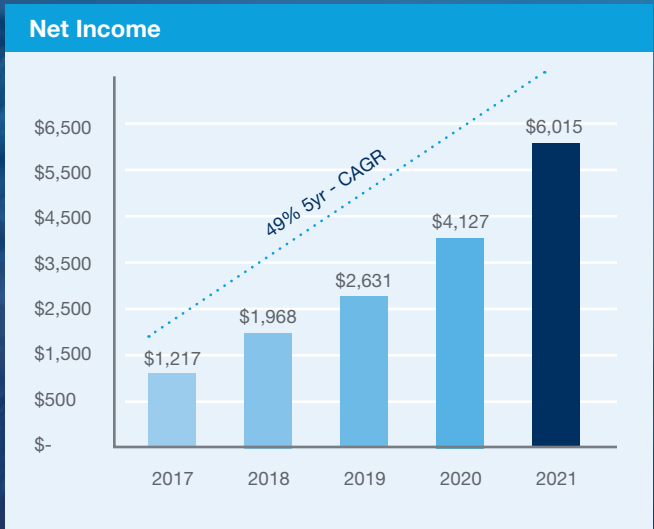
Cost of funds for the Bank decreased to 0.39% for 2021, down 22 basis points from 0.61% in 2020. Continuing impacts from the pandemic caused rates to decrease and remain low in 2021.



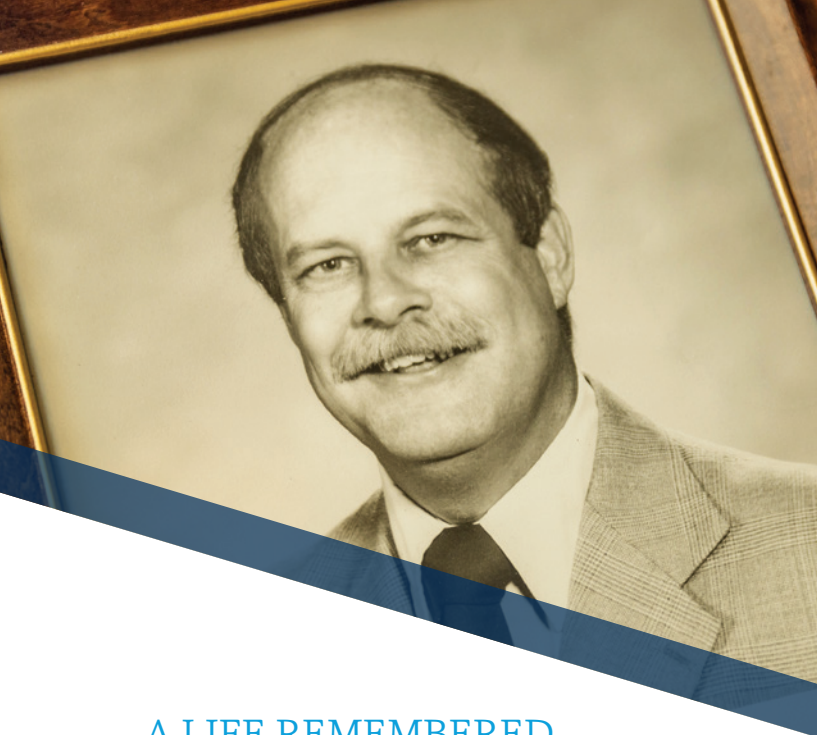
Earnings per share increased by \$0.84 or 46% in 2021. Contributing to the substantial increase in EPS was the increase in loan interest and fee income, and the decrease in deposit interest expense.



Net interest income increased by \$4.5 million in 2021 compared to 2020. Loan growth of \$51 million and PPP loan forgiveness of \$36.7 million resulted in \$2.8 million in PPP interest and fee income for the year. Cost of funds decreased by 22 basis points to 0.39% in 2021. The net resulted in the positive impact to margin income for the year.



Consolidated net income for 2021 was \$6.02 million, an increase of \$1.9 million or 46% compared to 2020. 2021 income was enhanced by PPP loan forgiveness of \$36.7 million, which contributed to \$2.8 million in loan interest and fee income for the year ending 2021. The five-year compound annual growth rate for net income is 49%.



## A LIFE REMEMBERED

# Tom Routzahn

Since Middletown Valley Bank was founded in 1908, countless individuals have dedicated their time and resources in helping the Bank succeed and remain profitable. The Absolutely Exceptional Experience was not built overnight, but rather, has been the result of 114 years of intense dedication and innovation. One individual who left a significant impact over the last 30 years was Tom Routzahn.

Tom had been associated with Middletown Valley Bank since his birth. His grandfather was involved with the founding of the Bank and his father served as director for 47 years. He was personally involved as a board member for nearly 30 years, from 1992 until 2021, and his son, JT, has been a board member since 2002.

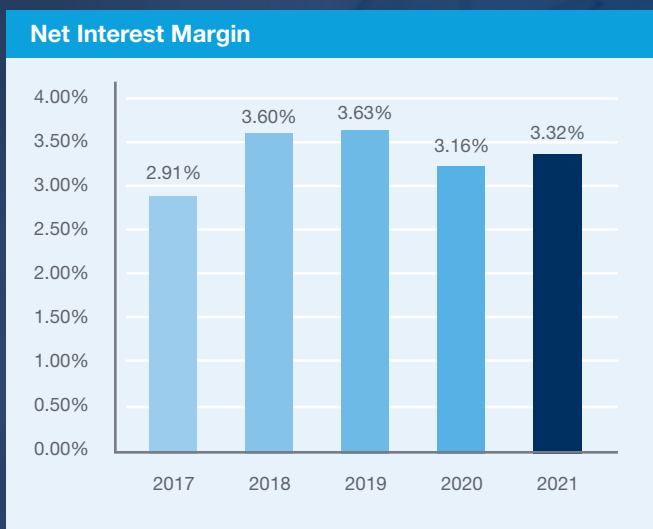
John Thomas “Tom” Routzahn, Jr. passed away peacefully on December 2, 2021 at the age of 82. He is survived by his wife of 59 years, Sara Ann Routzahn; three children, John T. “JT” Routzahn, III, Gretchen Steele, and Amy Lowery; and seven grandchildren, John T. Routzahn, IV, Clayton Steele, Andrew Steele, Mitchell Steele, Adrienne Lowery, Payton Lowery, and Brooke Lowery.

Mr. Routzahn was a 1957 graduate of Middletown High School, a 1961 graduate of Baldwin Wallace University, and served two years in the Air National Guard. He was Secretary of Grangers Mutual Insurance Company and ran the business with his father, John T. Routzahn, Sr. The business was located in the building that now serves as Town Hall on Main Street in Middletown. After its closure, Tom went on to work for various insurance agencies as an Insurance Auditor.

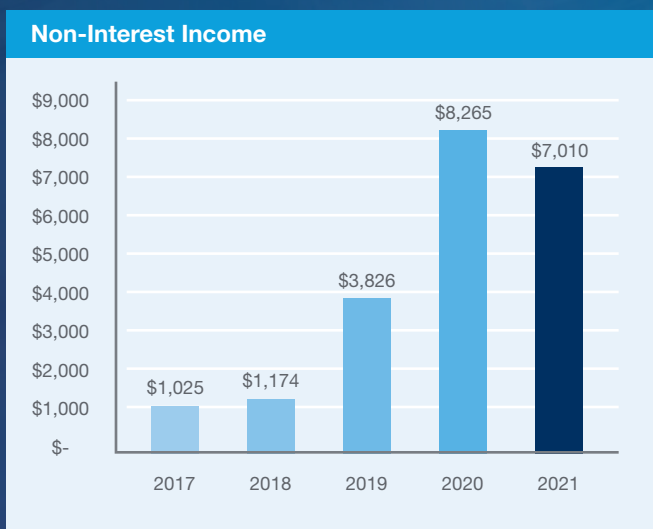
He was involved in the local community as a Middletown Commissioner for 14 years. He was a member of Zion Lutheran Church and was active with the local Government Insurance Trust. One of his biggest contributions to the Middletown community was his assistance in the opening of the Dr. J. Elmer Harp Medical Center in 1977, where Middletown Valley Family Medicine is currently located. Tom was President of the Center for several years and was heavily involved in the recruitment of doctors, the Scholarship Fund, and the upkeep of the building and grounds. Today, Tom and Sara Ann’s son, JT, serves as President of the Center.

Tom loved his family deeply and spent much of his free time with them. He enjoyed being outside and working in his yard and greenhouse – gardening and planting trees, bushes, flowers, and anything else that would bring beauty to the space. He also passed the beauty along to others in the form of fresh flower arrangements. According to his wife, Sara Ann, he would drop off flowers to friends to let them know he was thinking about them. His passion for gardening also materialized as a charter member of the Frederick Men’s Garden Club.

Tom’s passing was a significant loss for both the Company and the Middletown community. His legacy will be felt by many future generations, as he was always willing to lend a helping hand to others and was determined to leave the world better than how he found it.



Net interest margin increased by 16 bps in 2021 versus 2020. PPP loan forgiveness of \$36.7 million and the associated \$2.8 million in PPP interest and fee income along with a lower cost of funds at 0.39% were the main contributing factors of the increase in margin and the decrease in the yield on earning assets down to 3.76% and the loan yield to 4.39%.



Non-interest income decreased \$1.3 million compared to 2020. This was largely due to a \$571 thousand decrease in the gain on sale of securities and a \$729 thousand decrease in other secondary market income.



## EMPLOYEE SPOTLIGHT

# Brenda McComas & Cody Hill

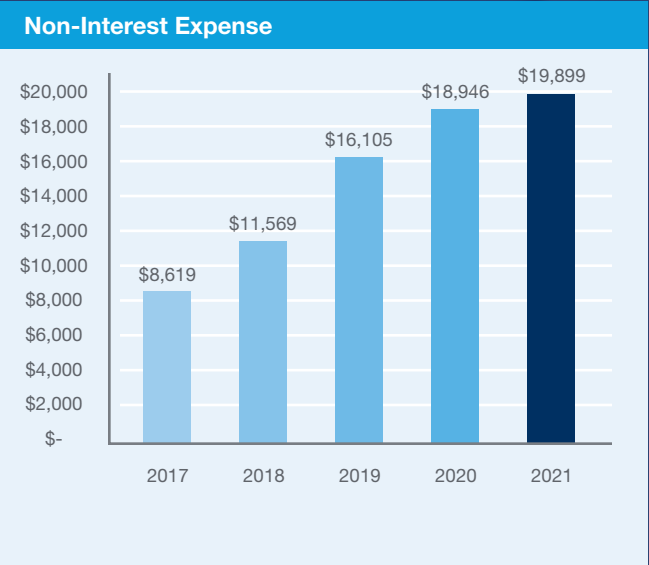
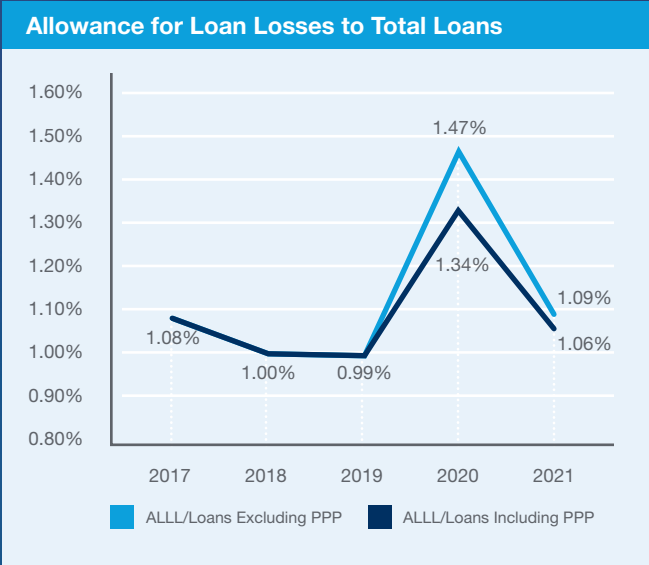
Brenda McComas is Senior Vice President, Director of Operations at Middletown Valley Bank. She has been with the Bank since May of 2017 and is responsible for the strategic leadership of MVB's loan operations, deposit operations, and support services groups. She leads the Bank's Product Enhancement Committee and plays a vital role in helping the Bank develop and implement new technologies and operational efficiencies.

Cody Hill is Assistant Vice President, Marketing Specialist with MVB. He has been with the Bank since August of 2017 and is responsible for the strategic leadership of the Company's marketing, communications, and consumer development. He leads the Company's Technology Development Committee and plays a crucial role in the development and adoption of new technologies and customer enhancements.

Together, Brenda and Cody work with the operations and sales teams to present customers with the very best experience, which includes state-of-the-art technology and customer service that is second to none. They truly believe listening to the wants and needs of their customers and team members is critical to staying relevant in an ever-evolving financial services environment.

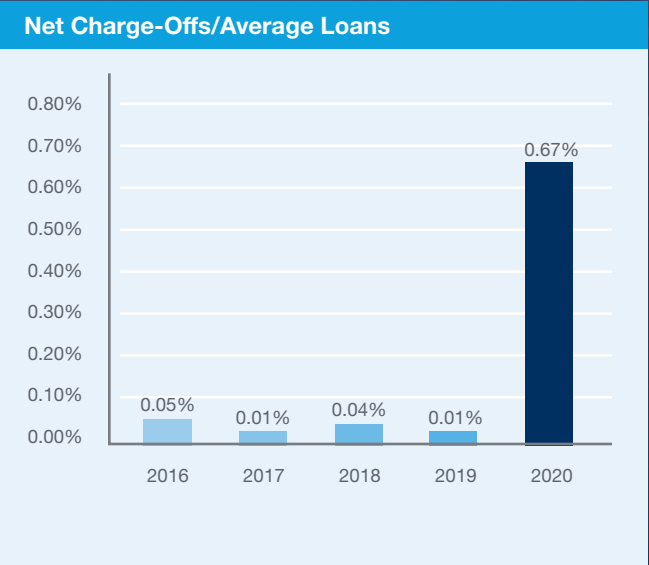
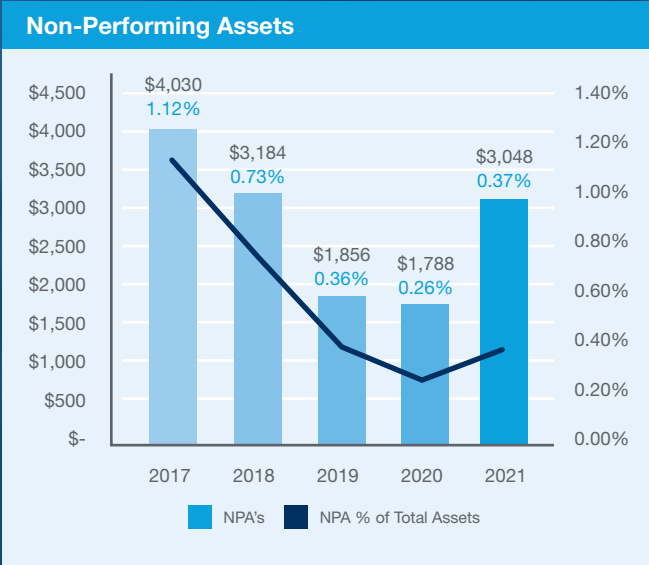
In 2021, the Bank initiated several technological advancements. Most notably was Banno (new online banking platform), Zelle (faster payments tool), Apple Pay & Google Pay (digital wallets), and DocuSign (secure e-sign tool). According to Brenda and Cody, Banno was the most exciting of all the projects. It was the largest implementation the Bank had ever completed in terms of customer impact, and it put MVB in a competitive position with many larger national and regional banks in the area.

These changes have benefited customers by offering them fast and convenient services, more and better ways to access their money, and additional support tools. The chat feature in Banno has been an especially popular feature. During business hours, customers can receive an answer to their questions within minutes, and it even allows customers to submit questions after hours and receive answers through the application when employees return to their desks. It is a time-saving tool for customers who do not have time to call or stop by a branch during the day. Once Banno was implemented, it provided a foundation for many of the other new technological advancements to fall into place. The result has been big bank technology with community bank service.



In the determination of the allowance for loan losses at December 31, 2021, management considered several factors, such as the continuing effects of the pandemic, as well as the ability of customers to meet their financial obligations due to other key economic factors. There was an isolated charge-off of \$4.6 million during 2021 due to the pandemic, of which \$540 thousand was recovered prior to year end 2021. As a result, the allowance for loan losses to total loans decreased 28 basis points to 1.09% in 2021, and a decrease year over year in the provision for loan loss expense of \$174 thousand.

Non-interest expense increased \$1 million, or 5.3%, in 2021 compared to 2020. The majority of the increase is related to salaries and employee benefits, which increased \$299 thousand. Data processing expense increased \$278 thousand as a result of the balance sheet growth during 2021. Deposit growth during 2021 contributed to an increase of \$161 thousand in FDIC premiums. While assets grew over 19% year over year, operating expenses held at a 5% increase, which resulted in improved efficiency metrics.



Non-performing assets (NPAs) increased in 2021 by \$1.3 million compared to 2020. As a percentage of total assets, NPAs increased from 0.26% in 2020 to 0.37% in 2021. The Bank continues to have strong credit quality overall and stresses credit quality as a major initiative in conjunction with the rapid growth of the loan portfolio.

Net charge-offs increased to \$4.1 million at year-end 2021 resulting from an isolated, pandemic related loan charge-off totaling \$4.6 million. The Bank entered into a forbearance agreement related to the charge-off and recorded \$540 thousand in recoveries in 2021. A thorough review of the loan portfolio was performed, and credit quality remains strong.



## EMPLOYEE SPOTLIGHT

# Sherry Martz & Mike Line

Sherry Martz serves as Banking Officer – Retail Branch Manager at the Bank’s Myersville Branch in Frederick County, Maryland. She has been with MVB since October of 2018. Sherry believes the Bank offers the Absolutely Exceptional Experience to every customer because each person is treated like they are the only customer. This is evident by the way in which she and her employees know exactly what most of their customers need the moment they walk through the door.

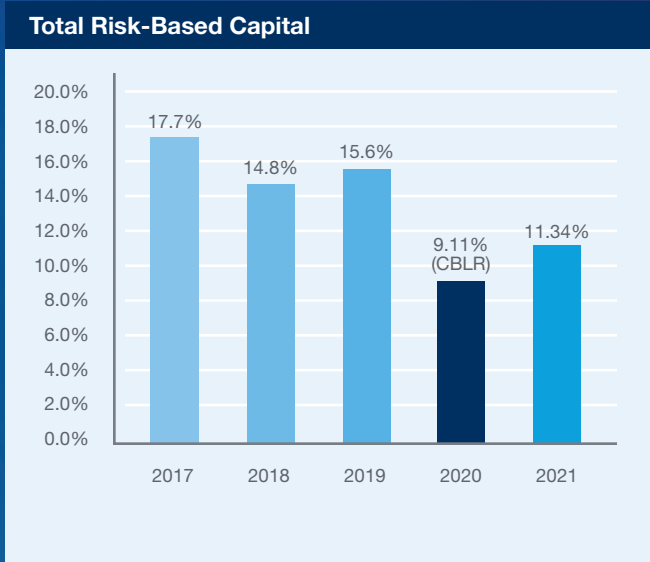
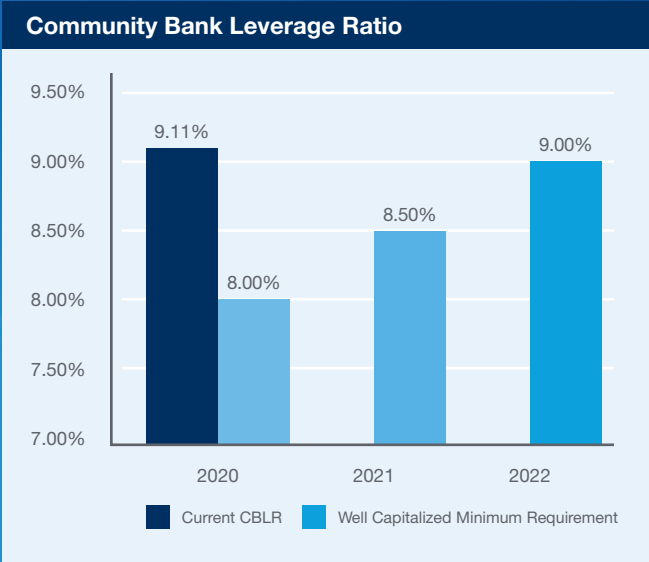
Mike Line serves as Vice President, Commercial Relationship Manager at Middletown Valley Bank. He has been with the Bank since August of 2015 and supports both Washington County and Frederick County, Maryland. According to Mike, all banks claim to offer exceptional customer service, but what sets MVB apart is that the Bank actually delivers on that statement. He believes this is the result of MVB empowering its employees in their local markets, coupled with the tools and resources needed to assist clients in any endeavor.

Mike and Sherry agree that the communities they serve are unique because they desire a personal relationship with their banker. Customers stay with MVB because they have a certain level of comfort with their bankers, and they know they will look out for their best interest. Sherry describes

Myersville as the “Mayberry” of Frederick County. Everyone knows everyone, and it is a very humble community.

The “Mayberry” mindset is not limited to interactions at the Bank’s offices and branches. Mike and Sherry are both heavily involved in their communities as well. Mike serves as a Board Member with Homewood at Williamsport, a retirement home in Washington County. He also is a member of the Hagerstown Loan Review Authority. Sherry is the shining star of volunteerism at MVB. Aside from the countless events she dedicates her time to each year, she also supports Myersville Elementary School, Myersville Library, and Myersville Volunteer Fire & Rescue Company.

While the personal relationships are incredible, we are also living in the 21st century, and individuals want the best of both worlds in terms of customer service and technology. Sherry believes the implementation of Banno, MVB’s online banking platform, has provided customers with an online experience that is much more user-friendly. Individuals and businesses can utilize the chat feature to quickly communicate with the Bank’s knowledgeable Customer Care Team, in addition to other self-service options such as completing transfers between accounts, adding travel messages to a debit card, and sending and receiving money with Zelle.



In 2020 the Bank adopted the CBLR framework as the measurement for capital adequacy (Tier 1 Capital to Total Average Assets). Under the CBLR, the minimum required to be adequately capitalized is 8% for 2020, 8.5% for 2021 and 9% thereafter. The Bank was well capitalized at 9.11% at December 31, 2020. The CBLR and the decision to revert back to Basel III framework is discussed in greater detail in the financial footnotes that follow.

Total risk-based capital in 2021 was 11.34% and was calculated utilizing Basel III for capital ratios. To be considered well capitalized under Basel III, the minimum capital requirement is 8%. The Bank was well capitalized for all periods reflected above.



## EMPLOYEE SPOTLIGHT

# Amy Gardenhour & Brandon Kline

Amy Gardenhour serves as a Residential Mortgage Banker for Middletown Valley Bank. She has been with the Bank since November of 2017 and primarily supports the Washington County, Maryland and Franklin County, Pennsylvania markets. She splits her time between the Paramount Branch in Hagerstown and the Waynesboro Branch, and believes working out of a branch makes a significant difference in her interactions with customers. Amy loves the branch setting because she is able to introduce her mortgage customers to branch staff and the services they can provide and develop lasting relationships with borrowers.

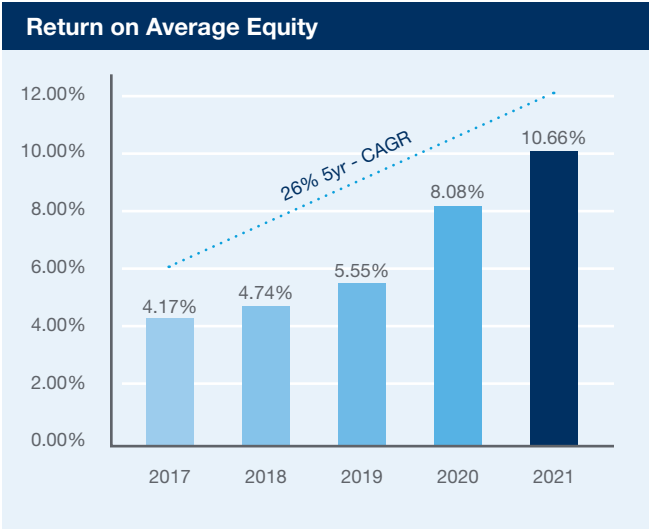
Brandon Kline is Vice President, Logistics & Secondary Market Operations at Mlend. He has been with the Company for 10 years and is located at the corporate office in Middletown. Brandon and his team wear many hats, including but not limited to, funding management, secondary market development & management, product research & development, as well as communication and training for the front line mortgage sales team. He is committed to exceptional customer experiences and works to ensure customers have homebuying experiences that are fast and easy.

Amy and Brandon enjoy being part of the fabric of the communities in which they serve. For Amy, the Franklin

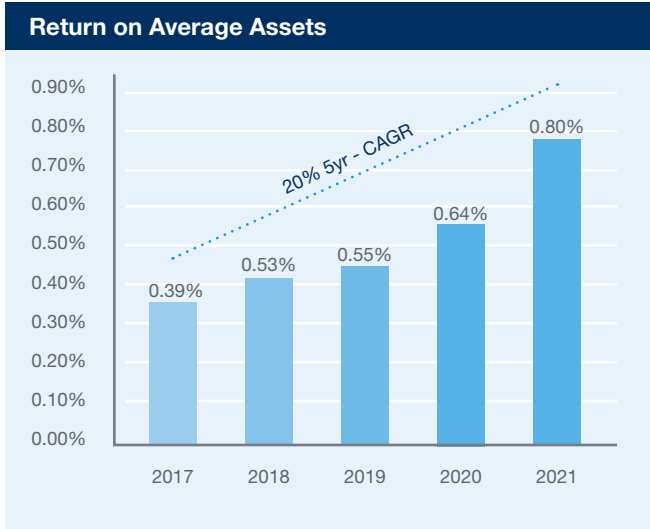
County market, and especially Waynesboro, is a small community where everybody knows your name. She is involved in the community as a member of the Youth Aide Panel in the Waynesboro/Greencastle Area School Districts, as well as various community events in her markets. Similarly, Brandon views working in smaller communities as an opportunity to connect with customers on a deeper level. He gives back to the Middletown area by coaching high school baseball and youth football.

Both mortgage professionals recognize the significant impact COVID-19 had on the industry. Prior to the pandemic, it was common to begin the application process in person, attend settlement with customers, and personally deliver closing gifts. Today, much of the mortgage process is conducted online and through email. A few factors associated with the pandemic have included historically low rates, high mortgage volumes, and an intense seller's market. Ultimately, customer needs and expectations evolved and team members quickly innovated to ensure customers experienced an efficient mortgage process from the application to the closing table.

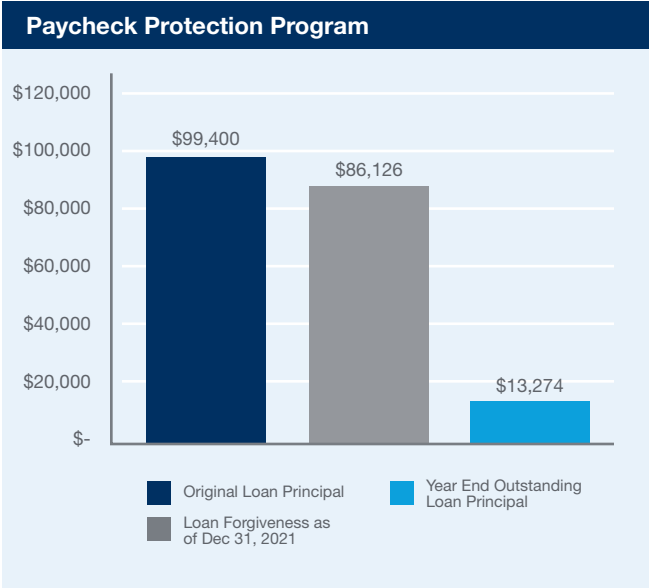




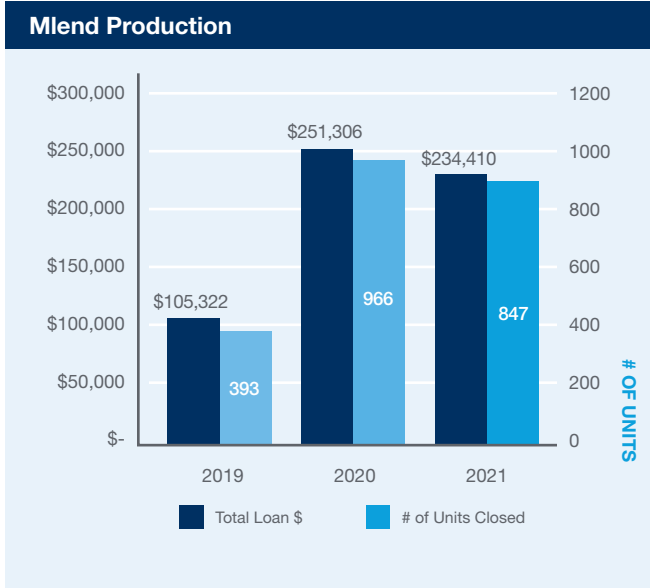
Return on average equity was 10.66% in 2021, an increase of 2.58% over 2020. 2021 was a year of record balance sheet growth and record net income, contributing to continued growth in shareholder value.



Return on average assets (ROAA) increased 16 basis points to 0.80% in 2021 compared to 0.64% in 2020. In 2021, upgrades were made to infrastructure to support the growth and earnings for the Company and stockholders. The Company grew in assets by \$129.7 million (19%) compared to 2020, and net income increased \$1.9 million (46%) for 2021. The five-year compound annual growth rate for ROAA is 20%.



The Bank participated in the SBA PPP to extend financial support to community businesses experiencing financial hardships during the pandemic. In doing so, the Company supported the retention of over 11,500 jobs in the local community via \$99.4 million in PPP loans. At year end 2021, \$86.1 million in PPP loans had been granted forgiveness.



Mlend's mortgage loan production for 2021 was 847 units for a total of \$234 million, which was a decrease of 119 units (12%) and \$17 million (7%) compared to 2020. Mlend contributed \$1.02 million to the Company's consolidated net income in 2021. The majority of loans were sold on the secondary market, while \$43.8 million of the 2021 production was retained at the Bank as part of the loans held for investment.



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders  
Community Heritage Financial, Inc.  
Middletown, Maryland

### **Opinion**

We have audited the consolidated financial statements of Community Heritage Financial, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when

it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the -we identified during the audit.

#### **Other Information Included in the Annual Report**

Management is responsible for the other information included in the annual report. The other information comprises the shareholder letter and selected financial data but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Yount, Hyde & Barbour, P.C.*

Roanoke, Virginia  
March 24, 2022

**COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

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

	December 31,	
	2021	2020
<b>Assets</b>		
Cash and due from banks	\$ 41,255,045	\$ 28,785,202
Securities available-for-sale, at fair value	144,019,313	72,438,845
Restricted equity securities	337,700	462,100
Loans	610,501,481	558,966,588
Less allowance for loan loss	6,499,690	7,480,190
Loans, net	604,001,791	551,486,398
Loans held for sale	5,423,358	12,626,481
Premises and equipment, net	6,771,220	6,399,918
Right-of-use assets	2,300,829	2,666,896
Accrued interest receivable	1,971,018	2,199,489
Deferred tax assets	2,140,827	2,080,834
Bank-owned life insurance	6,475,067	5,279,741
Goodwill	1,656,507	1,656,507
Intangible assets	695	9,028
Other assets	1,556,355	2,089,838
<b>Total Assets</b>	<b>\$ 817,909,724</b>	<b>\$ 688,181,277</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing demand	\$ 272,399,626	\$ 197,297,205
Interest-bearing	464,285,443	402,262,420
Total Deposits	736,685,070	599,559,625
Subordinated debt, net of amortized issuance cost	14,753,333	14,663,636
Other borrowings	1,887,060	8,558,178
Lease liabilities	2,367,676	2,714,979
Accrued interest payable	189,842	215,490
Other liabilities	5,071,852	9,508,874
<b>Total Liabilities</b>	<b>760,954,833</b>	<b>635,220,782</b>
<b>Shareholders' Equity</b>		
Preferred stock, par value \$.01; shares authorized 1,000,000; no shares issued and outstanding,	-	-
Common stock, par value \$.01; shares authorized 10,000,000; shares issued and outstanding at December 31, 2021 and 2020 2,251,320 and 2,251,320, respectively.	22,513	22,513
Additional paid in capital	28,537,379	28,523,004
Retained earnings	29,288,449	23,633,375
Accumulated other comprehensive (loss) income	(893,450)	781,603
<b>Total Shareholders' Equity</b>	<b>56,954,891</b>	<b>52,960,495</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 817,909,724</b>	<b>\$ 688,181,277</b>

See accompanying notes to the Consolidated Financial Statements

**COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
	<hr/>	<hr/>
Interest Income		
Loans, including fees	\$ 25,386,383	\$ 22,934,974
Securities	1,653,013	1,073,590
Fed funds sold and other	57,272	152,726
Total interest income	<hr/> 27,096,668	<hr/> 24,161,290
Interest Expense		
Deposits	1,834,432	3,411,990
Subordinated debt	952,197	947,409
Other borrowings expense	135,937	160,301
Total interest expense	<hr/> 2,922,566	<hr/> 4,519,700
Net interest income	24,174,102	19,641,590
Provision for loan losses	3,079,173	3,252,897
Net interest income after provision for loan losses	<hr/> 21,094,929	<hr/> 16,388,693
Non-interest income		
Service charges on deposits	734,710	648,125
Earnings bank owned life insurance	162,162	144,962
Gain on sale of fixed assets	18,684	500
Gain on sale of securities	178,265	749,590
Gain on sale of loans	4,809,175	4,655,892
Other secondary market income	289,049	1,017,944
Other non-interest income	818,162	1,047,791
Total non-interest income	<hr/> 7,010,207	<hr/> 8,264,803
Non-interest expense		
Salaries and employee benefits	11,446,557	11,147,427
Occupancy and equipment	2,811,633	2,738,468
Legal and professional fees	712,544	746,435
Advertising	297,595	271,442
Data processing	2,262,821	1,984,715
FDIC premiums	432,975	272,154
Other intangible amortization	8,333	8,333
Other	1,926,580	1,777,343
Total non-interest expense	<hr/> 19,899,038	<hr/> 18,946,317
Income before taxes	8,206,098	5,707,179
Income tax expense	2,190,813	1,579,761
Net Income	<hr/> \$ 6,015,285	<hr/> \$ 4,127,418
Basic and diluted earnings per share	\$2.67	\$1.83

See accompanying notes to the Consolidated Financial Statements

**COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 6,015,285	\$ 4,127,418
Other comprehensive (loss) income:		
Unrealized holding (loss) gain on securities available for sale (net of tax of \$(586,943) and \$418,301, respectively)	(1,545,846)	1,101,689
Reclassification adjustment (net of tax of \$(49,058) and \$(206,287), respectively)	<u>(129,207)</u>	<u>(543,303)</u>
Other comprehensive (loss) income, net of tax	<u>(1,675,053)</u>	<u>558,386</u>
Comprehensive net income	<u>\$ 4,340,232</u>	<u>\$ 4,685,804</u>

See accompanying notes to the Consolidated Financial Statements

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the Years Ended December 31, 2021 and 2020

	COMMON STOCK	Additional Paid-in-Capital	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
<b>BALANCE, DECEMBER 31, 2019</b>	\$ <u>22,513</u>	\$ <u>28,523,004</u>	\$ <u>19,866,168</u>	\$ <u>223,217</u>	\$ <u>48,634,902</u>
Net Income	-	-	4,127,418	-	4,127,418
Other comprehensive income	-	-	-	558,386	558,386
Cash dividends (\$0.16 per share)	-	-	(360,211)	-	(360,211)
<b>BALANCE, DECEMBER 31, 2020</b>	\$ <u>22,513</u>	\$ <u>28,523,004</u>	\$ <u>23,633,375</u>	\$ <u>781,603</u>	\$ <u>52,960,495</u>
Net Income	-	-	6,015,285	-	6,015,285
Other comprehensive loss	-	-	-	(1,675,053)	(1,675,053)
Stock based compensation expense	-	14,375	-	-	14,375
Cash dividends (\$0.16 per share)	-	-	(360,211)	-	(360,211)
<b>BALANCE, DECEMBER 31, 2021</b>	\$ <u>22,513</u>	\$ <u>28,537,379</u>	\$ <u>29,288,449</u>	\$ <u>(893,450)</u>	\$ <u>56,954,891</u>

See accompanying notes to the Consolidated Financial Statements

**COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	2021	2020
Net Income	\$ 6,015,285	\$ 4,127,418
Adjustments to reconcile net income to cash resulting from operating activities:		
Depreciation and amortization of premises and equipment	797,409	737,873
Provision for loan losses	3,079,173	3,252,897
Gain/Loss on sales and calls of investment securities	(178,265)	(749,590)
Gain on premises and equipment	(18,684)	(500)
Gain on sales of loans	(4,809,175)	(4,655,892)
Originations of loans held for sale	(290,649,258)	(203,067,019)
Proceeds from sales of loans held for sale	302,661,556	198,871,629
Amortization of intangibles	8,333	8,333
Amortization of debt issuance cost	89,697	89,696
Amortization of right-of-use assets	453,892	442,527
Stock based compensation expense	14,375	-
Earnings on bank owned life insurance	(162,162)	(144,962)
Deferred tax expense (benefit)	550,606	(1,313,267)
Decrease (increase) in accrued interest receivable	228,471	(966,865)
Decrease (increase) in other assets	558,535	(873,900)
Decrease in accrued interest payable	(25,648)	(64,342)
(Decrease) increase in other liabilities	(4,872,149)	2,152,390
Amortization of premium and discounts on investment securities, net	635,886	427,085
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	14,377,877	(1,726,489)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of securities available for sale	(102,477,651)	(77,195,621)
Proceeds from maturities, repayments and calls of securities available for sale	14,084,518	20,614,931
Proceeds from sales of securities available for sale	14,044,239	31,464,109
Proceeds from sales of fixed assets	57,000	500
Net (increase) in loans	(55,594,566)	(129,639,860)
Sale (Purchase) of FHLB stock, net	124,400	(69,900)
Purchases of fixed assets	(1,206,926)	(322,317)
Purchases of the bank owned life insurance	(1,033,164)	(167,936)
NET CASH (USED IN) INVESTING ACTIVITIES	\$ (132,002,150)	\$ (155,316,094)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Net increase in non-interest-bearing demand deposits	75,102,421	70,847,549
Net increase in interest-bearing deposits	62,023,024	82,005,565
Net (repayment) proceeds of other borrowings	(6,671,119)	8,269,139
Cash dividends paid	(360,211)	(360,211)
NET CASH PROVIDED BY FINANCING ACTIVITIES	130,094,116	160,762,042
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,469,843	3,719,459
<u>CASH AND CASH EQUIVALENTS, BEGINNING BALANCE</u>	28,785,202	25,065,743
<u>CASH AND CASH EQUIVALENTS, ENDING BALANCE</u>	\$ 41,255,045	\$ 28,785,202
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for:		
Interest	\$ 2,858,517	\$ 4,417,854
Income taxes	\$ 3,690,826	\$ 1,770,047
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</u>		
Unrealized (loss) gain on securities available for sale	\$ (2,311,056)	\$ 770,400
Unsettled purchases of securities available for sale	\$ -	\$ 3,588,594
Lease Liabilities arising from right of use assets	\$ 87,825	\$ -

See accompanying notes to the Consolidated Financial Statements

## **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

### **Nature of Operations:**

Community Heritage Financial, Inc. (“CMHF” or the “Company” on a consolidated basis), the parent company for its wholly-owned subsidiaries, Middletown Valley Bank (the “Bank”) and Millennium Financial Group, Inc. (“Mlend”), was established in November 2018 under the laws of the State of Maryland to serve as the holding company for the Bank. Establishment of the holding company occurred subsequent to an affirmative vote by shareholders and receipt of regulatory approval. Upon formation of the holding company, the Company’s reorganization was completed through a one-for-one share exchange in which the Bank’s shareholders received one share of CMHF’s common stock with a par value of \$0.01 in exchange for each share of their \$1 par value common stock of the Bank. CMHF is regulated under the Bank Holding Company Act of 1956, as amended, and is subject to regulation, supervision, and examination by the Federal Reserve Board.

Middletown Valley Bank is an independent and community-oriented financial institution offering a full range of retail and commercial banking services to individuals and businesses in its market area. Services are primarily provided to customers located in Frederick County and Washington County, Maryland, as well as the surrounding communities through the Bank’s network of eight branch locations. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are real estate mortgages, commercial business loans and installment loans.

Middletown Valley Bank began serving customers in 1908 and is headquartered in Middletown, Maryland. The Bank is a Maryland chartered bank subject to regulation, supervision, and examination by the Maryland Office of Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation (“FDIC”), and our deposits are insured by the FDIC up to \$250,000 per depositor. In addition to two branch offices in Middletown, the Bank also has branches in:

- Jefferson, Maryland,
- Myersville, Maryland
- Boonsboro, Maryland
- Hagerstown, Maryland (2), and
- Waynesboro, Pennsylvania

CMHF is parent company to the wholly owned subsidiary Millennium Financial Group, Inc. Millennium Financial Group Inc., (“Mlend”), is a full-service residential mortgage company, headquartered in Middletown, Maryland with additional lending offices located in Crofton, Maryland and Oakland, Maryland. Mlend is licensed in Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia and offers a full range of residential mortgage products to homebuyers for home purchases, refinancing and construction. Programs include but are not limited to conventional, USDA, VA, FHA, and Maryland Mortgage Program loans.

The accounting and reporting policies of the Company conform to generally accepted accounting principles and to general practices of the banking and mortgage industries. The following is a summary of the more significant policies.

### **Principles of Consolidation:**

The consolidated financial statements of Community Heritage Financial, Inc. and its wholly owned subsidiaries, Middletown Valley Bank and Millennium Financial Group, Inc., include the accounts of all three companies. All material intercompany balances and transactions have been eliminated in consolidation.

### **Business Segments:**

We primarily operate two business segments, commercial banking, and mortgage banking. The commercial banking segment includes both commercial and consumer lending and provides customers with products such as commercial loans, real estate loans, other business financing and consumer loans. In addition, this segment provides customers with several choice deposit products, including demand deposit accounts, savings accounts, and certificates of deposit. The mortgage banking segment engages primarily in the origination of residential mortgages for sale into the secondary market. For additional information, refer to Note 4, “Business Segments.”

**Use of Estimates:**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of goodwill and other-than-temporary impairment of securities.

**COVID-19:**

Beginning in March 2020, the COVID-19 pandemic had a significant impact on our communities, customers, and operations. COVID-19 continued to have an impact in 2021 and thus far into 2022; however, the duration and extent of its effects over the longer term are dependent on future developments and cannot be reasonably estimated at this time. Risks arising from the pandemic may impact the future earnings, cash flows, and financial condition of the Company. These risks which are inherently uncertain, primarily include: the financial impact of the pandemic on our customers, the ability of those customers to fulfill their financial obligations to the Company, potential operational disruptions, the Company's ability to generate demand for its products and services, and adverse changes in the valuation of collateral or other assets which may result in impairment charges. Accordingly, estimates used in the preparation of our financial statements may be subject to significant adjustments in future periods due to the unprecedented and evolving nature of the pandemic. The greater the duration and severity of the pandemic, the more likely that estimates will be materially impacted by its effects.

**Presentation of Cash Flows:**

For the purposes of reporting cash flows, the Company considers cash and cash equivalents as those amounts that are highly liquid instruments with an original maturity of three months or less. They are included in the balance sheet captions, "Cash and due from banks".

**Securities:**

Investments in debt securities are classified as either held to maturity, available for sale, or trading. Currently, all debt securities are classified as available for sale. FHLB stock is classified as restricted and carried at cost. Available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Bank intends to sell the security or (ii) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. The Bank does not intend to sell the security and it is not more-than-likely that the Bank will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

Management regularly reviews each security for other-than-temporary impairment based on criteria that includes the extent to which costs exceed market price, the duration of that market decline, the financial health of and specific prospects for the issuer, its best estimate of the present value of cash flows expected to be collected from debt securities, its intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

For restricted equity securities, impairment is based on the ultimate recovery of par value. The impairment of a restricted equity security results in a write-down that must be included in income.

Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities, using the specific identification method.

**Loans:**

Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the allowance for loan losses is netted against the recorded investment in loans on the balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan's contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest. All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of loan principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

**Loans Held for Sale:**

The Company engages in the sale of residential mortgages, with originations initiated through Mlend or the Bank. Loans originated and intended for sale (Loans held for Sale) in the secondary market are carried at the lower of cost or fair value on an individual basis. Gains and losses on loans sold (sales proceeds minus carrying value) are recorded as a component of noninterest income in the consolidated statements of income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon the sale of the loan. The servicing of loans held for sale is not retained once the sale is complete.

**Allowance for Loan Losses:**

An allowance for loan losses is maintained at a level deemed appropriate by management to provide for known and inherent losses that are probable within the loan portfolio. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans deemed uncollectible are charged off and deducted from the allowance, while subsequent recoveries are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the present value of expected future cash flows, the observable market price, or the fair value of the collateral, if the loan is collateral dependent, of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical losses adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate, residential real estate, and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance consumer loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

As the first step in determining the general component of the allowance for loan losses, management calculates the historical loss percentage. The historical loss percentage is calculated based on the Bank's experience as well as the experience of its peers. In instances where the Bank has not experienced losses, peer information will be used. The historical loss percentage calculated is applied to the quarter end balance of each portfolio segment. The historical component is further adjusted by management's evaluation of various conditions per segment including the economy, trends in portfolio volume, concentrations, changes in experience and depth of lending staff, trends in problem loans, and trends in collateral and debt ratio exceptions.

Management has an established internally developed methodology to determine the adequacy of the allowance for loan losses that assesses the risks inherent in the loan portfolio. For purposes of determining the allowance for loan losses, management has segmented certain loans in the portfolio by product type. The loan portfolio is segmented based on risk characteristics into the following segments: commercial real estate, residential real estate, commercial, and consumer loans. Particular characteristics associated with each segment are detailed below:

- Loans secured by commercial real estate carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral, if any, where depreciation occurs, and the valuation is less precise.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.

#### **Troubled Debt Restructurings:**

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring, ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. At December 31, 2021 and 2020, there were loans in the amount of \$1.9 million and \$1.04 million, respectively that were modified in troubled debt restructurings. There were no commitments to lend additional funds to these borrowers as of December 31, 2021 and 2020.

During 2020, the Bank approved payment deferrals for customers experiencing hardships related to COVID-19. These deferrals were for no more than six months in duration and for loans that were not more than 30 days past due as of December 31, 2019. As such, they were not considered TDRs based on the relief provisions of the Coronavirus Aid, Relief and Economic Security ("CARES") Act and recent interagency regulatory guidance. As of December 31, 2021 and 2020 there were loans in the amount of \$3.22 million and \$6.8 million, respectively, still on deferral.

#### **Transfers of Financial Assets:**

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

**Other Real Estate Owned:**

Properties acquired by foreclosure, or deed in lieu of foreclosure are initially recorded at fair value less cost to sell and subsequently at the lower of the initially recorded amount and capitalized costs or estimated fair value less cost to sell. Costs of carrying the real estate are charged to expense. As of December 31, 2021, and 2020, the Bank had no other real estate owned. At December 31, 2021, and 2020, the Bank had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

**Paycheck Protection Program:**

Beginning in April 2020, the Bank originated loans under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA). PPP loans are fully guaranteed by the SBA, and in some cases, borrowers may be eligible to obtain forgiveness of the loans, in which case loans would be repaid by the SBA. As repayment of the PPP loans is guaranteed by the SBA, the Bank does not recognize a reserve for PPP loans in its allowance for loan losses. The Bank received fees from the SBA of one percent to five percent of the principal amount of each loan originated under the PPP. Fees received from the SBA are recognized net of direct origination costs in interest income over the life of the related loans. Recognition of fees related to PPP loans is dependent upon the timing of ultimate repayment or forgiveness. Aggregate fees from the SBA of \$3.6 million, net of direct costs, are being recognized in interest income over the life of the loans. As of December 31, 2021 and 2020 there were \$392 thousand and \$1.2 million, respectively, in net fees which remained unrecognized.

**Premises and Equipment:**

Land is carried at cost. Premises and equipment, including construction of major capital additions, are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. The estimated useful lives for computing depreciation on premises and equipment range from 3 to 50 years in each of these categories. Maintenance and repairs are charged to operating expenses as incurred.

**Bank Owned Life Insurance:**

The Bank has purchased life insurance policies on certain key executives and other officers. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Any increase in the cash surrender value is recorded as noninterest income in the Consolidated Statements of Income. In the event of the death of an individual under these policies, the Bank would receive a death benefit which would also be recorded as noninterest income on the Consolidated Statements of Income.

**Equity Based Compensation:**

Compensation cost is recognized for equity awards issued to employees, based on the fair value of these awards at the date of grant using an observable market price. The Company classifies stock awards as equity. Compensation cost is recognized over the required service period on a straight-line basis. The Company's accounting policy is to recognize forfeitures as they occur.

**Earnings Per Common Share:**

Basic earnings per common share ("EPS") represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated by assuming dilution of common shares and adjusting net income for compensation cost attributable to the equity based compensation plan. Basic and diluted average shares outstanding were 2,251,320 for the years ended December 31, 2021 and 2020. Basic and dilutive earnings per share were \$2.67 and \$1.83 at December 31, 2021 and December 31, 2020, respectively.

**Income Taxes:**

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits, if any, 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 tax benefits are classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2021, and 2020, there was no liability recorded for unrecognized tax benefits.

#### **Advertising Costs:**

The Company accounts for its advertising costs as a charge to operations as the costs are incurred. Advertising costs were \$298 thousand and \$271 thousand for the years ended December 31, 2021 and 2020, respectively, and are included in other non-interest expenses in the Consolidated Statements of Income.

#### **Comprehensive Income (Loss):**

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). All the Company's other comprehensive income relates to unrealized gains and losses on available for sale securities for the years ended December 31, 2021 and 2020.

#### **Restrictions on Retained Earnings:**

According to certain banking regulations, there is a restriction on availability of the Bank's retained earnings for the payment of dividends.

#### **Goodwill and Other Intangible Assets:**

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company performs an annual goodwill impairment test, which is generally conducted in the fourth quarter. As of December 31, 2021, and 2020 there was no impairment to goodwill. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Intangible amortization expense was \$8,333 for both years ended December 31, 2021, and 2020.

#### **Recent Accounting Pronouncements:**

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities that meet the definition of a U.S. Securities and Exchange Commission (SEC) filer, excluding smaller reporting companies, the standard was effective for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years. All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after

December 15, 2022. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Company has formed a committee to address the compliance requirements and has engaged a third-party consultant to aid in modeling, assumptions, and testing. The Company is running a parallel model and data validations have been performed.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its' carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are not SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has adopted ASU 2017-04 and performs impairment testing annually. Thus far there has been no impact on the consolidated financial statements.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company has identified and is in the process of modifying loans that are directly or indirectly influenced by LIBOR. The Company is assessing ASU 2020-04 and its impact on the transition away from LIBOR for loans and other financial instruments.

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-06 "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity." The ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU also simplifies the diluted earnings per share (EPS) calculation in certain areas. In addition, the amendment updates the disclosure requirements for convertible instruments to increase the information transparency. For public business entities, excluding smaller reporting companies, the amendments in the ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, the standard will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The adoption of ASU 2020-06 has not had a material impact on the consolidated financial statements.

In October 2020, the FASB issued ASU 2020-08, “Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable fees and Other Costs.” This ASU clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is not permitted. All entities should apply ASU No. 2020-08 on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. The Company does not expect the adoption of ASU 2020-08 to have a material impact on its consolidated financial statements.

## Note 2. Earnings Per Common Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock that then shared in the earnings of the entity. The basic and diluted earnings per share calculations are as follows:

	For Years ended December 31,	
	2021	2020
Numerator:		
Net income available to shareholders	\$ 6,015,285	\$ 4,127,418
Basic EPS weighted average shares outstanding	2,251,320	2,251,320
Effect of dilutive securities:		
Incrementable shares attributable to restricted stock units	11	-
Diluted EPS weighted-average shares	2,251,331	2,251,320
Basic earnings per common shares	\$ 2.67	\$ 1.83
Diluted earnings per common shares	\$ 2.67	\$ 1.83

## Note 3. Goodwill and Other Intangibles

Goodwill and other intangibles were recorded as a result of CMHF’s acquisition of Mlend in 2019. Other intangibles are composed solely of a non-compete agreement entered into as a result of the acquisition, which is being amortized to income over the three-year life of the agreement. The following table provides information on the components of goodwill and other intangibles recorded in the Consolidated Balance Sheets at December 31, 2021 and 2020:

	As of December 31,	
	2021	2020
Non-compete intangible:		
Cost	\$ 25,000	\$ 25,000
Accumulated amortization	(24,305)	(15,972)
Non-compete intangible, net	\$ 695	\$ 9,028
Carrying value of goodwill:	1,656,507	1,656,507

Amortization expense included in other intangible amortization in the Consolidated Statements of Income was \$8,333 thousand for both as of December 31, 2021, and 2020.

The following table provides information on the expected future amortization of the non-compete intangible:

For the Years Ending December 31,	
2022	\$ 695
Total	\$ 695

#### Note 4. Business Segments

The Company has two reportable business segments: commercial banking and mortgage banking. Revenues from commercial banking operations consist primarily of interest earned on loans and investment securities as well as fees earned on deposit accounts and from other ancillary services provided to our depositors. Mortgage banking operating revenues consist primarily of gains on sales of loans in the secondary market, mortgage banking fee income related to loan originations, and interest earned on mortgage loans held for sale.

The results of operations associated with the holding company are comprised primarily of interest expense associated with the Company's subordinated debt and general corporate expenses. The results of the holding company are not directly associated with the Company's evaluation of its business lines and are included in "Other" below.

Information about reportable business segments and reconciliation of such information to the consolidated financial statements as of and for the years ended December 31, 2021 and 2020 are as follows:

#### COMMUNITY HERITAGE FINANCIAL, INC AND SUBSIDIARIES

##### OPERATING RESULTS BY BUSINESS SEGMENT

As of and for the Year Ended December 31, 2021

	Commercial Banking	Mortgage Banking	Other	Eliminations	Consolidated
<b>Revenues:</b>					
Interest income	\$ 26,973,664	\$ 219,971	\$ -	\$ (96,967)	\$ 27,096,668
Gain on sales of loans	-	4,809,175	-	-	4,809,175
Other secondary market income	-	426,557	-	(137,508)	289,049
Other non-interest income	1,880,495	31,488	-	-	1,911,983
Total operating income	28,854,159	5,487,191	-	(234,475)	34,106,875
<b>Expenses</b>					
Provision for loan losses	3,079,173	-	-	-	3,079,173
Interest expense	1,835,553	231,783	952,197	(96,967)	2,922,566
Non-interest expense	16,182,695	3,552,942	300,909	(137,508)	19,899,038
Total operating expenses	21,097,421	3,784,725	1,253,106	(234,474)	25,900,777
Income (loss) before taxes	7,756,983	1,702,221	(1,253,106)	-	8,206,098
Income tax expense (benefit)	1,979,202	468,451	(256,840)	-	2,190,813
Net income (loss)	\$ 5,777,781	\$ 1,233,770	\$ (996,266)	\$ -	\$ 6,015,285
Total assets	\$ 811,886,986	\$ 11,036,757	\$ 72,212,975	\$ (77,226,994)	\$ 817,909,724
Goodwill and other intangible	-	1,657,202	-	-	1,657,202
Capital expenditures	981,197	-	-	-	981,197

**COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES**

**OPERATING RESULTS BY BUSINESS SEGMENTS**

As of and for the Year Ended December 31, 2020

	Commercial Banking	Mortgage Banking	Other	Eliminations	Consolidated
<b>Revenues:</b>					
Interest Income	\$ 24,023,741	\$ 259,450	\$ -	\$ (121,901)	\$ 24,161,290
Gain on Sales of loans	-	4,655,892	-	-	4,655,892
Other secondary market income	-	1,209,784	-	(191,840)	1,017,944
Other non-interest income	2,125,041	465,926	-	-	2,590,967
Total operating income	<u>26,148,782</u>	<u>6,591,052</u>	<u>-</u>	<u>(313,741)</u>	<u>32,426,093</u>
<b>Expenses</b>					
Provision for loan losses	3,252,897	-	-	-	3,252,897
Interest expense	3,460,947	233,245	947,409	(121,901)	4,519,700
Non-interest expense	15,616,056	3,179,395	342,706	(191,840)	18,946,317
Total operating expenses	<u>22,329,900</u>	<u>3,412,640</u>	<u>1,290,115</u>	<u>(313,741)</u>	<u>26,718,914</u>
Income (loss) before taxes	3,818,882	3,178,412	(1,290,115)	-	5,707,179
Income tax expense (benefit)	955,353	874,699	(250,291)	-	1,579,761
Net income (loss)	<u>\$ 2,863,529</u>	<u>\$ 2,303,713</u>	<u>\$ (1,039,824)</u>	<u>\$ -</u>	<u>\$ 4,127,418</u>
Total Assets	\$ 672,286,999	\$ 18,146,883	\$ 68,093,987	\$ (70,346,592)	\$ 688,181,277
Goodwill and other intangible	-	1,665,534	-	-	1,665,534
Capital expenditures	238,576	34,142	-	-	272,717

**Note 5. Investment Securities**

There were no securities held to maturity as of December 31, 2021 and 2020.

The amortized cost and estimated fair value of securities available for sale, with gross unrealized gains and losses as of December 31, 2021 and 2020 were as follows:

As of and for the year ended December 31, 2021	Amortized Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S Government Agency	\$ 5,520,714	\$ -	\$ (72,904)	\$ 5,447,810
Mortgage Backed	83,512,858	109,467	(1,207,112)	82,415,213
Municipals	35,633,520	242,983	(261,091)	35,615,412
Corporates	20,584,904	227,788	(271,814)	20,540,878
Total	<u>\$ 145,251,996</u>	<u>\$ 580,238</u>	<u>\$ (1,812,921)</u>	<u>\$ 144,019,313</u>
As of and for the year ended December 31, 2020	Amortized Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasuries	\$ 999,916	\$ 1,564	\$ -	\$ 1,001,480
Mortgage Backed	37,007,159	498,342	(4,590)	37,500,911
Municipals	22,790,334	408,083	(12,118)	23,186,299
Corporates	10,563,065	198,620	(11,530)	10,750,155
Total	<u>\$ 71,360,474</u>	<u>\$ 1,106,609</u>	<u>\$ (28,238)</u>	<u>\$ 72,438,845</u>

Securities carried at estimated fair value of \$10.10 million and \$13.37 million at December 31, 2021 and 2020 respectively, were pledged to secure public funds and for other purposes as required or permitted by law. In 2021, the Company recognized gross gains of \$196 thousand and \$18 thousand gross losses. In 2020, the Company recognized gross gains of \$754 thousand and gross losses of \$4 thousand on the sales of securities.

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

As of December 31, 2021	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 654,767	\$ 655,840
Due after one year through five years	3,987,383	3,994,456
Due after five years through ten years	30,331,947	30,180,539
Due after ten years	110,277,899	109,188,478
	\$ 145,251,996	\$ 144,019,313

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

As of December 31, 2021	Number of Securities	Less than twelve months		Twelve Months or Greater		Total	
		Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
		U.S Government Agency	4	\$ 5,447,810	\$ (72,904)	\$ -	\$ -
Mortgage backed	52	74,045,218	(1,151,522)	1,446,691	(55,590)	75,491,909	(1,207,112)
Municipals	30	23,460,115	(255,810)	559,190	(5,282)	24,019,305	(261,091)
Corporates	16	13,472,559	(271,814)	-	-	13,472,559	(271,814)
Total	102	\$ 116,425,702	\$ (1,752,050)	\$ 2,005,881	\$ (60,872)	\$ 118,431,583	\$ (1,812,921)

As of December 31, 2020	Number of Securities	Less than twelve months		Twelve Months or Greater		Total	
		Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
		Mortgage backed	2	\$ 1,628,939	\$ (4,590)	\$ -	\$ -
Municipals	2	1,639,495	(12,118)	-	-	1,639,495	(12,118)
Corporates	5	2,738,470	(11,530)	-	-	2,738,470	(11,530)
Total	9	\$ 6,006,904	\$ (28,238)	\$ -	\$ -	\$ 6,006,904	\$ (28,238)

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. At December 31, 2021 the Bank has three securities that have been in an unrealized loss position for greater than twelve months. The unrealized losses on debt securities are reflective of interest rate fluctuations and are not a reflection of credit deterioration. Because the Bank does not intend to sell these investments and it is more likely than not that the Bank will not be required to sell these investments before recovery of the amortized cost basis, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

#### Note 6. Loans and Allowance for Loan Losses

Loans outstanding as of December 31, 2021 and 2020, are categorized as follows:

	As of December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
Commercial real estate	\$ 273,325,125	44.9%	\$ 245,561,346	43.9%
Residential real estate	163,070,140	26.8%	135,352,754	24.2%
Commercial	171,727,599	28.2%	177,190,311	31.7%
Consumer	809,531	0.1%	791,325	0.1%
Total gross loans	\$ 608,932,395	100.0%	\$ 558,895,736	100.0%
Net deferred loan costs	1,569,086		70,852	
Allowance for loan losses	(6,499,690)		(7,480,190)	
Total net loans	\$ 604,001,791		\$ 551,486,398	

As of December 31, 2021 and 2020, overdraft deposits reclassified as loans totaled \$46 thousand and \$33 thousand, respectively.

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2021 and 2020:

As of and for the year ended December 31, 2021	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 3,607,150	\$ 1,344,653	\$ 2,501,278	\$ 27,109	\$ 7,480,190
Provision for loan losses	(1,049,039)	402,798	3,700,234	25,179	3,079,173
Charge-offs	-	-	(4,595,494)	(15,818)	(4,611,312)
Recoveries	-	-	541,088	10,551	551,639
Ending Balance	<u>\$ 2,558,111</u>	<u>\$ 1,747,451</u>	<u>\$ 2,147,107</u>	<u>\$ 47,021</u>	<u>\$ 6,499,690</u>

Allowance for credit losses:

Individually evaluated for impairment in

accordance with ASC-310-10	\$ -	\$ -	\$ 79,190	\$ 20,000	\$ 99,190
Collectively evaluated for impairment	<u>2,558,111</u>	<u>1,747,451</u>	<u>2,067,917</u>	<u>27,021</u>	<u>6,400,500</u>
Ending Balance	<u>\$ 2,558,111</u>	<u>\$ 1,747,451</u>	<u>\$ 2,147,107</u>	<u>\$ 47,021</u>	<u>\$ 6,499,690</u>

As of and for the year ended December 31, 2020	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 1,852,081	\$ 1,042,910	\$ 1,303,371	\$ 36,953	\$ 4,235,315
Provision for loan losses	1,755,069	301,743	1,197,907	(1,822)	3,252,897
Charge-offs	-	-	-	(13,710)	(13,710)
Recoveries	-	-	-	5,688	5,688
Ending Balance	<u>\$ 3,607,150</u>	<u>\$ 1,344,653</u>	<u>\$ 2,501,278</u>	<u>\$ 27,109</u>	<u>\$ 7,480,190</u>

Allowance for credit losses:

Individually evaluated for impairment in

accordance with ASC-310-10	\$ -	\$ -	\$ 33,323	\$ -	\$ 33,323
Collectively evaluated for impairment	<u>3,607,150</u>	<u>1,344,653</u>	<u>2,467,955</u>	<u>27,109</u>	<u>7,446,867</u>
Ending Balance	<u>\$ 3,607,150</u>	<u>\$ 1,344,653</u>	<u>\$ 2,501,278</u>	<u>\$ 27,109</u>	<u>\$ 7,480,190</u>

The following tables summarize the recorded investments in loans as of December 31, 2021 and 2020, related to each balance in the allowance for loan losses by the portfolio segment and disaggregated based on the Bank's impairment methodology:

As of December 31, 2021	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Recorded investment in loans:					
Individually evaluated for impairment	\$ 121,103	\$ 2,827,555	\$ 79,190	\$ 20,000	\$ 3,047,848
Collectively evaluated for impairment	<u>273,204,022</u>	<u>160,242,585</u>	<u>171,648,409</u>	<u>789,531</u>	<u>605,884,547</u>
Ending Balance	<u>\$ 273,325,125</u>	<u>\$ 163,070,140</u>	<u>\$ 171,727,599</u>	<u>\$ 809,531</u>	<u>\$ 608,932,395</u>

As of December 31, 2020

Recorded investment in loans:					
Individually evaluated for impairment	\$ 201,583	\$ 522,928	\$ 315,646	\$ -	\$ 1,040,157
Collectively evaluated for impairment	<u>245,359,763</u>	<u>134,829,826</u>	<u>176,874,665</u>	<u>791,325</u>	<u>557,855,579</u>
Ending Balance	<u>\$ 245,561,346</u>	<u>\$ 135,352,754</u>	<u>\$ 177,190,311</u>	<u>\$ 791,325</u>	<u>\$ 558,895,736</u>

Management evaluates the credit quality of all loans based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Bank's internal risk grading is based on experiences with similarly graded loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for adverse risk ratings:

- **Special Mention** - Loans classified as special mention have a potential weakness that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- **Substandard** - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful** - A loan classified doubtful has all the weaknesses inherent in one classified 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.

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Bank's internal risk rating system as of December 31, 2021 and 2020:

As of December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and					
Land Development	\$ 53,493,806	\$ -	\$ -	\$ -	\$ 53,493,806
Multifamily	11,888,198	-	-	-	11,888,198
Other	206,901,655	920,363	121,103	-	207,943,121
Residential Real Estate	159,933,935	-	3,136,205	-	163,070,140
Commercial	171,147,735	-	579,864	-	171,727,599
Consumer, primarily home equity lines	789,531	-	20,000	-	809,531
Total gross loans	<u>\$ 604,154,860</u>	<u>\$ 920,363</u>	<u>\$ 3,857,172</u>	<u>\$ -</u>	<u>\$ 608,932,395</u>

As of December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and					
Land Development	\$ 58,058,471	\$ -	\$ -	\$ -	\$ 58,058,471
Multifamily	12,725,410	-	-	-	12,725,410
Other	173,607,681	968,201	201,583	-	174,777,465
Residential Real Estate	133,354,167	98,386	1,900,201	-	135,352,754
Commercial	169,799,051	1,992,228	5,399,032	-	177,190,311
Consumer, primarily home equity lines	791,325	-	-	-	791,325
Total gross loans	<u>\$ 548,336,105</u>	<u>\$ 3,058,815</u>	<u>\$ 7,500,816</u>	<u>\$ -</u>	<u>\$ 558,895,736</u>

The following tables reflect past due and nonaccrual loans as of December 31, 2021 and 2020:

As of December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Current Loans	Total Recorded Investment in Loans	Nonaccrual Loans
Commercial Real Estate:						
Construction and						
Land Development	\$ -	\$ -	\$ -	\$ 53,493,806	\$ 53,493,806	\$ -
Multifamily	-	-	-	11,888,198	11,888,198	-
Other	-	-	-	207,943,121	207,943,121	121,103
Residential Real Estate	267,387	579,403	40,504	162,182,846	163,070,140	1,871,058
Commercial	-	-	-	171,727,599	171,727,599	79,190
Consumer	20,000	-	-	789,531	809,531	20,000
Total gross loans	\$ <u>287,387</u>	\$ <u>579,403</u>	\$ <u>40,504</u>	\$ <u>608,025,101</u>	\$ <u>608,932,395</u>	\$ <u>2,091,351</u>

As of December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Current Loans	Total Recorded Investment in Loans	Nonaccrual Loans
Commercial Real Estate:						
Construction and						
Land Development	\$ -	\$ -	\$ -	\$ 58,058,471	\$ 58,058,471	\$ -
Multifamily	-	-	-	12,725,410	12,725,410	-
Other	-	-	-	174,777,465	174,777,465	201,583
Residential Real Estate	-	-	53,335	135,299,419	135,352,754	522,928
Commercial	-	-	-	177,190,311	177,190,311	282,323
Consumer	-	-	-	791,325	791,325	-
Total gross loans	\$ <u>-</u>	\$ <u>-</u>	\$ <u>53,335</u>	\$ <u>558,842,401</u>	\$ <u>558,895,736</u>	\$ <u>1,006,834</u>

There were no loans 90 days or more past due and still accruing as of December 31, 2021 and 2020.

The following tables summarize information regarding impaired loans, including TDRs, presented by class of loans as of December 31, 2021 and 2020:

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	588,859	121,103	-	161,343	-
Residential Real Estate	3,118,410	2,827,554	-	2,870,338	107,513
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	\$ <u>3,707,269</u>	\$ <u>2,948,657</u>	\$ <u>-</u>	\$ <u>3,031,681</u>	\$ <u>107,513</u>

With an Allowance Recorded:

Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Commercial	85,000	79,190	79,190	81,021	-
Consumer	20,000	20,000	20,000	20,000	2,069
	\$ <u>105,000</u>	\$ <u>99,190</u>	\$ <u>99,190</u>	\$ <u>101,021</u>	\$ <u>2,069</u>

<u>December 31, 2020</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With No Related Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	628,707	201,583	-	235,991	-
Residential Real Estate	738,291	522,928	-	554,365	-
Commercial	291,332	282,323	-	330,014	9,009
Consumer	-	-	-	-	-
	<u>\$ 1,658,330</u>	<u>\$ 1,006,834</u>	<u>\$ -</u>	<u>\$ 1,120,370</u>	<u>\$ 9,009</u>
With an Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Commercial	33,323	33,323	33,323	33,430	-
Consumer	-	-	-	-	-
	<u>\$ 33,323</u>	<u>\$ 33,323</u>	<u>\$ 33,323</u>	<u>\$ 33,430</u>	<u>\$ -</u>

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions and negative trends may result in a payment default in the near future.

There were two new residential loans modified in a TDR during the year ended December 31, 2021 for a total of \$945 thousand. These modifications included a reduction in the interest rate on both loans and an extension of the maturity on one loan. There was one new modification during the year ended December 31, 2020 totaling \$102 thousand. This modification included a reduction in interest rate and an extension of the maturity. There were no TDRs that subsequently defaulted within 12 months of their modification during the years ended December 31, 2021 and 2020.

#### **Note 7. Premises and Equipment**

The components of premises and equipment at December 31, 2021 and 2020 are as follows:

	<u>For the Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Premises and land	\$ 7,785,352	\$ 7,812,337
Leasehold improvements	1,329,164	675,580
Furniture and fixtures	970,240	892,123
Equipment and software	3,491,486	3,095,352
Total Cost	<u>\$ 13,576,242</u>	<u>\$ 12,475,392</u>
Accumulated depreciation	(6,805,022)	(6,075,475)
Total premises and equipment, net	<u>\$ 6,771,220</u>	<u>\$ 6,399,918</u>

Depreciation expense amounted to \$797 thousand and \$738 thousand during the years ended December 31, 2021 and 2020, respectively.

**Note 8: Leases**

The Company follows ASU No. 2016-02 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The right-of-use assets and lease liabilities detailed below include five locations used by the Bank and three locations used by Mlend at December 31, 2021 and four locations used by the Bank and three locations used by Mlend at December 31, 2020. Short-term leases, including those with initial terms of 12 months or less, are not included in these balances. Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term, or for variable lease payments, in the period in which the obligation was incurred.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs, and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases:

	As of December 31, 2021		
	Bank	Mlend	Consolidated
Lease liabilities	\$ 1,776,158	\$ 591,519	\$ 2,367,676
Right-of-use assets	\$ 1,720,860	\$ 579,969	\$ 2,300,829
Weighted average remaining lease term	6.5 years	7.1 years	6.7 years
Weighted average discount rate	3.08 %	3.28 %	3.13 %

	For the Year Ended December 31, 2021		
	Bank	Mlend	Consolidated
Operating lease cost	\$ 443,243	\$ 118,531	\$ 561,774
Short-term lease cost	1,435	194	1,629
Total lease cost	\$ 444,678	\$ 118,725	\$ 563,403

Cash paid for amounts included in the measurement of lease liabilities	\$ 427,847	\$ 87,600	\$ 515,447
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	As of December 31, 2020		
	Bank	Mlend	Consolidated
Lease liabilities	\$ 2,056,249	\$ 658,729	\$ 2,714,979
Right-of-use assets	\$ 2,015,558	\$ 651,338	\$ 2,666,896
Weighted average remaining lease term	7.1 years	8.1 years	7.4 years
Weighted average discount rate	3.15 %	3.28 %	3.18 %

	For the Year Ended December 31, 2020		
	Bank	Mlend	Consolidated
Operating lease cost	\$ 431,239	\$ 118,949	\$ 550,188
Short-term lease cost	1,488		1,488
Total lease cost	\$ 432,727	\$ 118,949	\$ 551,677

Cash paid for amounts included in the measurement of lease liabilities	\$ 413,587	\$ 88,150	\$ 501,737
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A maturity analysis of the Company's operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities at December 31, 2021, was as follows:

	As of December 31, 2021		
	Bank	Mlend	Consolidated
<b>Lease payments due</b>			
Year ended December 31, 2022	\$ 403,108	\$ 87,600	\$ 490,708
Year ended December 31, 2023	405,614	87,600	493,214
Year ended December 31, 2024	404,673	94,475	499,148
Year ended December 31, 2025	218,340	95,730	314,070
Year ended December 31, 2026	70,805	96,360	167,165
Thereafter	474,788	201,905	676,693
Total undiscounted cash flows	1,977,328	663,670	2,640,998
Discount	(201,170)	(72,152)	(273,322)
Lease liabilities	\$ 1,776,158	\$ 591,519	\$ 2,367,676

## Note 9. Deposits

The components of deposits for the years ending December 31, 2021 and 2020 were as follows:

	For the Years Ended December 31,	
	2021	2020
Non-interest bearing deposits	\$ 272,399,626	\$ 197,297,205
Interest bearing deposits		
NOW accounts	95,100,698	72,889,183
Money market accounts	201,093,248	159,851,013
Savings accounts	79,990,672	67,106,504
Time deposits accounts	88,100,826	102,415,721
Total interest bearing deposits	464,285,443	402,262,420
Total deposits	\$ 736,685,070	\$ 599,559,625

The following is a schedule of the future maturities of time deposits as of December 31, 2021:

<u>For the Year Ending December 31:</u>	
2022	\$ 48,214,020
2023	31,232,722
2024	4,943,535
2025	1,880,681
2026	<u>1,829,868</u>
	\$ <u><u>88,100,826</u></u>

Time deposits in denominations of \$250,000 or more amounted to \$31.5 million and \$43.1 million, respectively, at December 31, 2021 and 2020. Included in total deposits at December 31, 2021 and 2020 were insured cash sweep (ICS) and CDARS deposits in the amount of \$70 million and \$55.5 million, respectively. Other brokered deposits included in total deposits at December 31, 2021 and 2020 were \$246 thousand and \$8.8 million, respectively.

#### **Note 10. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction and the state of Maryland. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examination by tax authorities for years prior to 2018.

The following table reflects the provision for income taxes charged (credited) to operations for the years ending December 31, 2021 and 2020:

	<u>For the Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current tax expense	\$ 1,640,207	\$ 2,893,028
Deferred tax expense (benefit)	<u>550,606</u>	<u>(1,313,267)</u>
Total income tax	\$ <u><u>2,190,813</u></u>	\$ <u><u>1,579,761</u></u>

A reconciliation of the federal statutory income tax rate on pre-tax income to the provision for income taxes was as follows for the years ending December 31, 2021 and 2020:

	<u>For the Years Ending December 31,</u>	
	<u>2021</u>	<u>2020</u>
Federal tax statutory rate	21.00%	21.00%
Federal tax at statutory rate	\$ 1,723,281	\$ 1,198,509
Increase (decrease) resulting from the following:		
State income taxes, net of federal tax benefit	522,783	357,996
Tax-exempt interest income	(91,737)	(81,363)
Bank owned life insurance income	(34,054)	(30,442)
Non-deductible interest expense	2,713	4,524
Other non-deductible expenses	17,803	18,512
Other, net	<u>50,024</u>	<u>112,025</u>
Total income tax expense	\$ <u><u>2,190,813</u></u>	\$ <u><u>1,579,761</u></u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 were as follows:

	As of December 31,	
	2021	2020
<b>Deferred Tax Assets</b>		
Allowance for loan losses	\$ 1,755,077	\$ 1,999,688
Lease Liabilities	651,585	747,162
Supplemental benefits expense	147,965	150,969
Deferrred compensation liability	109,689	46,628
Allowance for off-balance sheet credit exposures	284,796	266,119
Unrealized loss on available for sale securities	339,235	-
Non-accrual interest	219,658	183,309
Other	50,113	87,537
Total deferred tax asset	\$ 3,558,118	\$ 3,481,412
<b>Deferred Tax Liabilities</b>		
Right of use assets	(633,188)	(733,929)
Unrealized gain on available for sale securities	-	(296,768)
Deferred loan costs, net	(431,812)	(18,998)
Depreciation	(352,291)	(350,883)
Total deferred tax liabilities	(1,417,291)	(1,400,578)
Net deferred tax assets	\$ 2,140,827	\$ 2,080,834

#### **Note 11. Borrowings**

At December 31, 2021, the Bank had \$15.5 million available in unsecured borrowings with other financial institutions with interest rates on these agreements equal to the prevailing federal funds rate. In addition, the Bank had access to \$5 million in short-term borrowing capacity from the Federal Reserve Discount Window with an interest rate equal to 0.75%. The Bank also has access to a credit line with The Federal Home Loan Bank of Atlanta (FHLBA) that may be utilized for short and long-term borrowings. At December 31, 2021 and 2020, the Bank had no outstanding borrowings with the FHLBA. Total credit availability with the FHLBA at December 31, 2021 was \$193.6 million. Advances under this line of credit are secured by a portion of the Bank's loan portfolio, which at December 31, 2021, would have allowed the Bank to access up to \$115.2 million of credit without pledging additional loans as collateral.

The Bank also had a \$1.0 million letter of credit at December 31, 2021 and 2020 with another financial institution for contingency funding purposes.

Other borrowings of \$1.9 million and \$8.6 million at December 31, 2021 and 2020, respectively, consisted of Mends' draws on warehouse lines of credit maintained at other financial institutions. Draws on the warehouse lines of credit are collateralized by the specific mortgage loans held for sale which are funded by advances on the lines. The total warehouse lines of credit were \$11 million and \$5 million, with a remaining credit availability of \$9.1 million and \$2.4 million at December 31, 2021 and 2020, respectively.

#### **Note 12. Related Party Transactions**

The Company has, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families, and affiliated companies (collectively referred to as "Related Parties"). These transactions are executed on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

The following schedule presents the activity of loans with the Company's Related Parties for the years ended December 31, 2021 and 2020:

	December 31,	
	2021	2020
Beginning balance	\$ 890,625	740,450
Effect of changes in the composition of related parties	3,419,754	(372,894)
Advances	425,425	935,827
Principal curtailments	(161,717)	(412,758)
Ending balance	\$ <u>4,574,087</u>	\$ <u>890,625</u>

The aggregate amount of deposits of executive officers, directors, and their related interests was \$4.9 million and \$4.6 million at December 31, 2021 and 2020, respectively.

Mlend leases its Middletown, Maryland location from Fordham Holdings, LLC, and leases its Oakland, Maryland location from Dry Dock Plaza, LLC. Fordham and Dry Dock are legal entities owned by a member of executive management. The related lease liabilities included in the total of lease liabilities disclosed in Note 8. – Leases was \$595 thousand and \$659 thousand at December 31, 2021 and 2020, respectively.

### **Note 13. Commitments and Contingencies**

The Company is subject to legal proceedings which are incidental to the ordinary course of business. In the opinion of the management of the Company, there are no material pending legal proceedings to which the Company is a party to, or which involve any of its property.

### **Note 14. Financial Instruments with Off-Balance-Sheet Risk**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract amounts of these financial instruments at December 31, 2021 and 2020 are as follows:

	2021	2020
Commitments to extend credit	\$ 197,798,000	\$ 162,134,000
Standby letters of credit and financial guarantees written	\$ 4,131,457	\$ 3,945,689

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral supporting those commitments when deemed necessary by management.

At December 31, 2021 and 2020, the Company, primarily through Mlend, had interest rate lock commitments to originate mortgage loans totaling \$12.6 million and \$30.9 million, respectively. The Company enters into corresponding commitments with third-party investors to sell each of these loans that close on a best-efforts basis.

**Note 15. Concentrations of Credit Risk**

The Bank extends credit for real estate construction, land development, commercial and residential loans, to customers throughout its market area. Although the Bank has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the real estate economic sector.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Bank upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but generally includes equipment and real estate.

The Bank has concentrations of deposits with other financial institutions. At December 31, 2021, there was \$8.4 million of cash balances outstanding in excess of the FDIC insurance levels.

**Note 16. Profit Sharing Plans**

The Bank has a deferred compensation, (401(k)), profit sharing plan and trust for all employees who are 21 years of age or older and who have completed 90 days of employment. The plan permits eligible participants to contribute the maximum percentage allowable by law. At its discretion, the Bank may make matching and/or profit-sharing plan contributions. The Bank made discretionary contributions of \$174 thousand and \$158 thousand to the plan during the years ended December 31, 2021 and 2020, respectively.

Mlend also has a deferred compensation (401(k)) profit sharing plan and trust, which is separate and distinct from the Bank plan. All employees who are 21 years of age or older and who have completed one month of employment are eligible to participate. The plan permits eligible participants to contribute the maximum percentage allowable by law. At its discretion, Mlend may make matching and/or profit-sharing plan contributions. Mlend made discretionary contributions of \$49 thousand and \$33 thousand to the plan for the years ended December 31, 2021 and 2020, respectively.

**Note 17. Other Benefit Plans**

The Bank adopted a defined benefit SERP for certain Executive Officers. The defined benefit SERP on the Executive Officers includes a vesting schedule. The supplemental benefit expense for the years ended December 31, 2021 and 2020 was \$39 thousand and \$44 thousand, respectively. The related liability balance at December 31, 2021 and 2020 was \$538 thousand and \$549 thousand, respectively. The plans are unfunded; however, life insurance has been acquired on the life of the employees in amounts sufficient to help meet the costs of the obligations.

In 2018, the Bank established a nonqualified deferred compensation plan which allows certain key employees to defer a portion of their compensation and provide for supplemental retirement benefits. The plan is unfunded; however, such deferrals accumulate gains and losses based on certain deemed investment options. The Bank may also, at its discretion, make matching contributions to participant accounts. All such contributions vest over a three-year period from the end of the year in which the contributions are made. Plan participation began in 2019, and the net deferred compensation liability recorded in other liabilities on the Consolidated Balance Sheets was \$362 thousand and \$169 thousand at December 31, 2021 and 2020, respectively. The Bank has purchased bank owned life insurance to economically hedge changes in the nonqualified deferred compensation liability.

**Note 18. Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In 2020, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework, (“CBLR framework”), for qualifying community banks, 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 adopted by the Bank as of December 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 Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the CBLR ratio requirement after the expiration of temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying institutions to calculate and report risk-based capital but rather only requires a Tier 1 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 will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies’ capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rule, the CBLR minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for 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% as of December 31, 2020, 7.5% for calendar year 2021 and 8% for 2022 and beyond.

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

As of December 31, 2021 and 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain the minimum ratios as set forth in the following tables. During the year ended December 31, 2020 the Bank adopted the CBLR framework, to be used for measuring the regulatory capital of the Bank, in place of the risk- based capital ratios. Under the CBLR regulatory minimum capital requirement of 8% the bank maintained its well capitalized level for the year ended December 31, 2020.

Effective September 30, 2021, the Bank reverted back to the Basel III risk-weighting framework. As of December 31, 2021 the Bank met all requirements to be “well capitalized” under the risk-weighting framework.

Management believes, as of December 31, 2021 and 2020 the Bank met all capital adequacy requirements to which it was subject.

The actual and required capital amounts and ratios as of December 31, 2021 and 2020 are presented below:

As of December 31, 2021	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	\$ 75,504	11.34%	\$ 53,289	8.00%	\$ 66,611	10.00%
Tier 1 capital (to risk weighted assets)	\$ 67,969	10.20%	\$ 39,966	6.00%	\$ 53,289	8.00%
Common equity tier 1 capital (to risk weighted assets)	\$ 67,969	10.20%	\$ 29,975	4.50%	\$ 43,297	6.50%
Tier 1 leverage (to average assets)	\$ 67,969	8.57%	\$ 31,738	4.00%	\$ 39,672	5.00%

As of December 31, 2020	Actual		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
Community bank leverage ratio (Tier 1 capital to average assets)	\$ 61,673	9.11%	\$ 54,146	8.00%

As a FHA-approved mortgagee, Mlend must maintain a minimum adjusted net worth of \$1,000,000 plus 1% of the total volume in excess of \$25,000,000 of FHA single family mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of \$2,200,000. Mlend must also maintain liquid assets of at least 20% of its required adjusted net worth. Adjusted net worth is defined as shareholders' equity, less certain unacceptable assets. At December 31, 2021 and 2020, Mlend met these requirements.

**Note 19. Fair Value Measurements**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topic of FASB ASC-820, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

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

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

Interest rate lock commitments: The Company recognizes interest rate lock commitments at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best-efforts basis while taking into consideration the probability (pull-through) that the rate lock commitments will close (Level 3). The pull-through rate is considered a level 3 input which at December 31, 2021, ranged from (70% - 90%), with a weighted average of (63%) based on the relative fair values of these assets.

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

As of December 31, 2021	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Securities available-for-sale:				
U.S. Treasuries	\$ -	\$ 5,447,810	\$ -	\$ 5,447,810
Mortgage Backed	-	82,415,213	-	82,415,213
Municipals	-	35,615,412	-	35,615,412
Corporates	-	20,540,878	-	20,540,878
Interest rate lock commitments	-	-	156,090	156,090
Total assets measured on a recurring basis	\$ -	\$ 144,019,313	\$ -	\$ 144,175,403
<b>Liabilities:</b>				
Other Liabilities				
Interest rate lock commitments	\$ -	\$ -	\$ 7,160	\$ 7,160
Total liabilities measured in a recurring basis	\$ -	\$ -	\$ 7,160	\$ 7,160
As of December 31, 2020	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Securities available-for-sale:				
U.S. Treasuries	\$ -	\$ 1,001,480	\$ -	\$ 1,001,480
Mortgage Backed	-	37,500,911	-	37,500,911
Municipals	-	23,186,299	-	23,186,299
Corporates	-	10,750,155	-	10,750,155
Other Assets:				
Interest rate lock commitments	-	-	465,926	465,926
Total assets measured on a recurring basis	\$ -	\$ 72,438,845	\$ -	\$ 72,904,771
<b>Liabilities:</b>				
Other Liabilities				
Interest rate lock commitments	\$ -	\$ -	\$ 7,890	\$ 7,890
Total liabilities measured in a recurring basis	\$ -	\$ -	\$ 7,890	\$ 7,890

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

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

Loans Held for Sale: Loans held for sale are carried at the lower of cost or estimated fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale at December 31, 2021 and 2020.

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparable or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3).

Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. No impaired loans were carried at fair value at December 31, 2021 and 2020.

Other Real Estate Owned: OREO is measured at fair value in the same manner as described for impaired loans. Any initial fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in noninterest expense on the Consolidated Statements of Income. The Company had no other real estate owned at December 31, 2021 and 2020.

For financial assets measured at fair value on a non-recurring basis the Bank had no non-recurring assets with fair values at December 31, 2021 and 2020.

FASB ASC 825, Financials Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value.

The estimated fair value of the Company's financial instruments is summarized as follows as of December 31, 2021 and 2020:

		December 31,			
		2021		2020	
	Level in Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>					
Cash and due from banks	Level 1	\$ 41,255,045	\$ 41,255,045	\$ 28,785,202	\$ 28,785,202
FHLB Stock	Level 1	337,700	337,700	462,100	462,100
Securities	Level 2	144,019,313	144,019,313	72,438,845	72,438,845
Loans held for sale	Level 2	5,423,358	5,423,358	12,626,481	12,626,481
Loans, net	Level 3	604,001,791	604,167,705	551,486,398	551,667,546
Accrued interest receivable	Level 2	1,971,018	1,971,018	2,199,489	2,199,489
Bank owned life insurance	Level 2	6,475,067	6,475,067	5,279,741	5,279,741
Interest rate lock commitments	Level 3	156,090	156,090	465,926	465,926
<b>Financial liabilities:</b>					
Time Deposits	Level 3	\$ 88,100,826	\$ 87,626,826	\$ 102,415,721	\$ 104,361,721
Other Deposits	Level 2	648,584,244	648,584,244	497,143,904	497,143,904
Accrued interest payable	Level 2	189,842	189,842	215,490	215,490
Subordinated Debt	Level 3	14,753,333	14,899,479	14,663,636	14,950,299
Other Borrowings	Level 3	1,887,060	1,887,060	8,558,178	8,558,178
Interest rate lock commitments	Level 3	7,160	7,160	7,890	7,890

## Note 20. Derivatives

We maintain and account for derivatives, in the form of interest-rate lock commitments ("IRLCs"), in accordance with the FASB guidance on accounting for derivative instruments and hedging activities. We recognize gains and losses on IRLCs on the mortgage loan pipeline through non-interest income and non-interest expense in the Consolidated Statements of Income. IRLCs on mortgage loans that we intend to sell in the secondary market are considered derivatives. We are exposed to price risk from the time a mortgage loan closes until the time the loan is sold. The period between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 60 days with a limited number of IRLC's of up to 90 days. At December 31, 2021 and 2020, the derivative assets and liabilities were included in the Consolidated Balance Sheets in other assets and other liabilities, respectively.

Information pertaining to the notional amounts and fair values of the Company's derivative financial instruments are at December 31, 2021 and December 31, 2020 are as follows:

As of December 31, 2021:	Notional Amount	Estimated Fair Value
Asset - IRLCs	\$ 9,742,073	\$ 156,090
Liability - IRLCs	2,846,766	7,160

As of December 31, 2020:	Notional Amount	Fair Value
Asset - IRLCs	\$ 28,820,112	\$ 465,926
Liability - IRLCs	2,124,000	7,890

## Note 21. Subordinated Debt

The Company issued long-term private placement subordinated fixed-to-floating rate debt ("Notes") for \$15 million in October 2019 to multiple investors in the form of Subordinated Note Purchase Agreements Subject to limited exceptions permitting earlier redemption, the Notes may be redeemed on or after October 24, 2024. Unless redeemed earlier, the notes will mature on October 30, 2029. The notes bear a fixed rate of 5.75% for 5 years and will bear a floating rate equal to three-month SOFR plus 439.5 basis points thereafter. The notes are carried at their principal amount, less unamortized issuance costs and are structured to qualify as Tier 2 capital. The initial debt issuance costs were \$448 thousand. As of December 31, 2021 and 2020, the unamortized issuance costs were \$247 thousand and \$336 thousand, respectively.

## Note 22. Common Stock

As of December 31, 2021 and 2020, there were 2,251,320 shares of common stock outstanding. On October 16, 2020, the board of directors voted and approved an increase in the total authorized capital stock of the Company from 5,000,000 shares to 11,000,000 shares, designated as 10,000,000 shares of common stock and 1,000,000 shares of preferred stock. At December 31, 2021, there were 7,748,680 shares of common stock and 1,000,000 shares of preferred stock available to be issued.

On February 11, 2021 the Community Heritage Financial Human Capital Management Committee approved the details of the “Community Heritage Financial, Inc. Equity Incentive Plan”, which was approved by shareholders on October 16, 2020. The plan allows the Company to grant stock options, restricted stock, and restricted stock units to certain officers and employees. The plan allows for up to 10,000 shares of common stock to key employees of the Company and its subsidiaries in the form of stock options, restricted stock units and stock awards and performance units.

On October 31, 2021 the Company issued its first block of equity compensation under the approved “Community Heritage Financial, Inc. Equity Incentive Plan”, consisting of 10,000 restricted stock units. The recipients do not receive shares of the Company’s stock immediately but instead receive shares, or cash, upon the stated vesting period specified by the terms and condition of the grant. Additionally the recipients of restricted stock units do not enjoy the rights of holder of the Company common stock until the units have vested and as such, they do not have voting rights or rights to nonforfeitable dividends. The related compensation expense is based on the grant date fair value of the Company stock at \$23.00 per share. Shares vest over 4 years in fourths with the first one-fourth vesting one year from the grant date. The total expense recognized for the year ended December 31, 2021, in connection with the restricted stock unit awards was approximately \$14,375. There were no forfeitures as of December 31, 2021.

## Note 23. Other Non-interest Expenses

The following table describes the significant components of other non-interest expenses included in the Consolidated Statements of Income for the years ended December 31, 2021 and 2020:

	For the Years Ending December 31,	
	2021	2020
Public Relations and charitable contribution:\$	262,107	\$ 488,659
ATM and check card expenses	368,526	338,572
Director fees	177,175	186,525
Other miscellaneous operating expenses	1,118,772	763,587
Total other operating expenses	\$ 1,926,580	\$ 1,777,343

## Note 24. Revenue from Contracts with Customers

Substantially all the Company’s revenue from contracts with customers that is within the scope of ASC 606, “Revenue from Contracts with Customers” is reported within non-interest income. Certain other in-scope items such as gains and losses on OREO are recorded in non-interest expense. The recognition of interest income and certain sources of non-interest income (e.g. gains on security transactions, bank owned life insurance income, gains on loans held for sale, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within scope of ASC 606 and included in non-interest income are discussed in the following paragraphs.

### Service Charges on Deposit Accounts

A significant portion of noninterest income is derived from short-term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM fees, and monthly account fees. The Bank’s performance obligations on revenue generated from deposit accounts are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

### VISA Check Card Income

The Bank earns interchange fees from debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

### Gains and Losses on the Sale of Other Real Estate Owned

The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

The following table describes the in-scope and out-of-scope noninterest income elements related to ASC Topic 606 for the years ended December 31, 2021 and 2020:

	For the Years Ending December 31,	
	2021	2020
In-scope of ASC topic 606:		
Service charges on deposit accounts:		
Monthly service and other activity charges	\$ 657,760	\$ 581,778
ATM fees	76,950	66,347
VISA check card income	777,826	546,626
Gain/(loss) premises and equipment	18,684	500
Other operating income	40,335	35,239
Total non-interest income within the scope of ASC-606	1,571,555	1,230,490
Out-of-scope of ASC 606	(1) 5,438,652	7,034,313
	\$ 7,010,207	\$ 8,264,803

(1) Includes bank owned life insurance, gain on sale of loans, other mortgage banking income gain on IRLC's and gain on sale of securities.

### Contract Balances

The Company's in-scope non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfied its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2021 and 2020, the Company did not have any significant contract balances.

### **Note 25. Subsequent Events**

The Company evaluates subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Subsequent events have been considered through March 24, 2022, the date financial statements were available to be issued.

On March 1, 2022 Millennium Financial Services, Inc., or Mlend, ceased operating as a separate entity under Community Heritage Financial, Inc., parent company, and became a subsidiary under Middletown Valley Bank.

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## Executive Management

**Robert E. Goetz, Jr.**

*President & Chief Executive Officer*

**J. Michael Hill**

*Executive Vice President & Chief Risk Officer*

**Ryan Lampton**

*Executive Vice President & Chief Revenue Officer, MVB*

**Robert Wolfe, Jr.**

*Executive Vice President & Chief Financial Officer*

**William H. Poffenbarger, Jr.**

*Executive Vice President  
President & Chief Executive Officer,  
Mlend*

**Dawn Lowe**

*Senior Vice President & Director of  
Human Resources*

**Brenda McComas**

*Senior Vice President & Director of  
Operations, MVB*

**Dustin Watson**

*Senior Vice President & Senior Credit  
Officer, MVB*

**Christopher A. Hesem**

*Senior Vice President & Director of  
Strategic Advancement, MVB*

**Dawn R. Woods**

*Corporate Secretary*

**Michelle Lease**

*Assistant Corporate Secretary*

## Board of Directors

### COMMUNITY HERITAGE FINANCIAL, INC. AND MIDDLETOWN VALLEY BANK

**James G. Pierne**

*Chairman of the Board  
Assistant Professor of Business  
& Management, Hagerstown  
Community College*

**Todd M. Snook**

*Vice Chairman of the Board  
Owner & President, Valley  
Storage Company*

**James H. Clapp**

*Retired Attorney*

**Beth Dellaposta**

*Chief Financial Officer,  
Doing Better Business*

**Robert E. Goetz, Jr.**

*President & Chief Executive  
Officer, CHF & MVB*

**Richard L. Kefauver**

*Retired Businessman*

**A. Dennis Remsburg**

*Retired Businessman*

**John T. Routzahn, III**

*Marketing Representative,  
Mutual Benefit Group*

## Board of Directors

### MILLENNIUM FINANCIAL GROUP, INC.

**James G. Pierne**

*Chairman of the Board*

**Robert E. Goetz, Jr.**

*Vice Chairman of the Board*

**William H. Poffenbarger, Jr.**

**Richard L. Kefauver**

**A. Dennis Remsburg**

# ADAPTING FOR OUR **Communities**

2021 ANNUAL REPORT

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## **General Information**

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chfinvestorrelations@mvbbank.com  
[www.communityheritageinc.com](http://www.communityheritageinc.com)

## **Registrar, Transfer Agent and Change of Address:**

American Stock Transfer & Trust Company, LLC.  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219

[help@astfinancial.com](mailto:help@astfinancial.com)

Market: OTC Pink Marketplace  
Trading symbol: CMHF

