PB FINANCIAL CORPORATION

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

To Our Shareholders

The primary focus of PB Financial Corporation (the "Company"), the holding company for Providence Bank (the "Bank"), is to increase your shareholder value. We strive to provide a strong return to our shareholders through increased share price and cash dividend payments. We accomplish this by putting our customers first and investing in the communities we serve. We are continuously improving our products and services, listening to our customers, and working with them to provide exceptional service. We invest in our communities by lending to local businesses and individuals and providing numerous monetary contributions to local charitable organizations. In addition, our employees are personally involved in over 33 community/civic organizations and hold officer level positions in at least 16 of them. The Bank also provides an enriching work environment for our employees.

The Company had record earnings in 2021 as detailed in our audited financial statements. In addition, the Company made numerous enhancements to our products during 2021. Some of these included, adding direct connect for Quicken/QuickBooks, adding a new mobile application for our business customers and enhancing our debit cards to allow contactless transactions. We also proactively issued Small Business Administration's Paycheck Protection Program (PPP) loans in early 2021 with the second round of PPP lending. These loans were a tremendous help for our customers and local economies.

We have had tremendous success in our newest branch located at 100 E. Six Forks Road, Suite 304, in Raleigh which opened in late 2020. We will continue to search for additional locations in and around our current markets to expand our Company. We encourage you to share news about our Company with friends and family you may have in any of the markets we serve.

The Company's stock is listed on the OTCQX Best Market exchange under the symbol "PBNC." Our goal in listing our stock was to increase visibility with additional market exposure, improve liquidity and provide our shareholders with an efficient stock trading platform. We feel this goal has been accomplished and encourage you to track your investment in the Company. When you include cash dividends, we calculate a return on PBNC stock for 2021 of 28.16%. If you were an original investor in our Company, your average annual return for the past 16 years has been 19.19% per year, including cash dividends. We are extremely proud of the returns we have been able to achieve for our shareholders.

Over the past thirteen years, the Bank has been the only North Carolina chartered bank consistently ranked in the top ten in overall performance, including being ranked in the top four for the past eight consecutive years. For 2021, Providence Bank was ranked 1st in overall performance among these 44 financial institutions (rankings provided by the Financial Management Consulting Group).

The Board of Directors and management are very pleased with the record earnings and the overall results of the Company's operations for 2021 (as detailed in the following table).

($ in Millions)	Loans		Total Assets		Net Income Available to Common Shareholders	
2017	$256.3	(+16.39%)	$322.2	(+16.91%)	$2.629	(+ 5.46%) *
2018	$355.2	(+38.59%)	$451.5	(+40.13%)	$5.693	(+ 116.55%) **
2019	$387.2	(+9.01%)	$478.3	(+5.94%)	$7.124	(+ 25.14%)
2020	$464.2	(+19.88%)	$586.6	(+22.62%)	$6.808	(- 4.43%)
2021	$550.7	(+18.62%)	$701.4	(+19.58%)	$9.819	(+ 44.22%)

*Net income in 2017 was reduced from a one-time tax provision expense of $506,663 for the net deferred tax asset revaluation resulting from enactment of the Tax Cuts and Jobs Act. Without this one-time tax provision expense, the Bank would have reported Net Income Available to Common Shareholder of $3,135,469 which would have been an increase of 25.78% when compared to 2016. **The increase in 2018 would have been 81.59% when compared to 2017 without the one-time tax provision expense outlined above.

Paying cash dividends on our stock is another way of enhancing shareholder value. The most recent cash dividend of $0.28 per share will be paid on February 24, 2022, and represents an increase of 21.74% from the $0.23 per share that was paid in the 1st Quarter of 2021. This dividend is the 41st consecutive quarterly cash dividend paid. We have increased our cash dividend each quarter since we began paying dividends in the 1st Quarter of 2012. The annual cash dividend paid in 2021 of $1.01 per share represents an increase of 20.96% from the $0.835 per share that was paid in 2020.

The Company's Board of Directors and management are extremely proud of our success in 2021. This success comes from a combination of our outstanding staff, superior customer service, and being more efficient than most of our competitors. We believe the Bank continues to be well-situated to grow and provide attractive and tangible returns to our shareholders.

We appreciate your investment in our Company and encourage you to allow us to provide your banking needs. We offer a full line of products and services and deliver them with exceptional high-touch customer service. We stand proud as an Independent Community Bank in our area. As a shareholder, you can be confident in the results of your Company. Please contact me with any comments or suggestions you may have. Thank you for your continued support of our Company.

Sincerely,

Ted E. Whitehurst

Ted E. Whitehurst
President & Chief Executive Officer

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Independent Auditors' Report

PB Financial Corporation
Stockholders and the Board of Directors
Rocky Mount, NC

Opinion

We have audited the financial statements of PB Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PB Financial Corporation 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 PB Financial Corporation's ability to continue as a going concern for the year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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.

DHG

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 PB Financial Corporation'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 PB Financial Corporation's ability to continue as a going concern for a reasonable period of time.

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

Dixon Hughes Goodman LLP

Greenville, NC
February 15, 2022

PB Financial Corporation
Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and due from banks	**$ 7,231,712**	$ 6,939,028
Interest-earning deposits with banks	**29,214,041**	46,803,005
Federal funds sold	**1,828,589**	2,926,745
Certificates of deposit with banks	**4,265,837**	6,570,837
Investment securities available for sale, at fair value	**83,922,015**	32,551,186
Loans	**550,659,905**	464,220,812
Allowance for loan losses	**(5,541,000)**	(4,592,000)
Net loans	**545,118,905**	459,628,812
Accrued interest receivable	**1,882,851**	1,632,102
Foreclosed real estate, net	**-**	1,894,804
Premises and equipment, net	**2,368,139**	2,468,264
Stock in Federal Home Loan Bank of Atlanta, at cost	**1,793,700**	2,514,000
Bank-owned life insurance	**16,014,734**	14,670,784
Goodwill	**4,063,881**	4,063,881
Other assets	**3,717,135**	3,895,949
Total assets	**$ 701,421,539**	$ 586,559,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	**$ 573,106,358**	$ 456,431,534
Accrued interest payable	**490,614**	524,218
Accrued expenses and other liabilities	**3,414,011**	3,071,702
Short-term borrowings	**12,911,059**	11,291,094
Long-term borrowings	**46,224,948**	57,140,329
Total liabilities	**636,146,990**	528,458,877
Commitments (Notes 5, 6 and 10)		
Stockholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized; none issued and outstanding	**-**	-
Common stock, $1.00 par value, 10,000,000 shares authorized; 2,207,576 and 2,184,014 shares issued and outstanding at December 31, 2021 and 2020, respectively	**2,207,576**	2,184,014
Additional paid-in capital	**28,220,039**	27,983,190
Retained earnings	**35,254,816**	27,656,871
Accumulated other comprehensive (loss) income	**(407,882)**	276,445
Total stockholders' equity	**65,274,549**	58,100,520
Total liabilities and stockholders' equity	**$ 701,421,539**	$ 586,559,397

PB Financial Corporation
Consolidated Statements of Operations
Years Ended December 31, 2021 and 2020

	2021	2020
Interest income:		
Loans	**$ 25,277,354**	$ 22,256,058
Interest-earning deposits in other banks	**146,519**	302,133
Federal funds sold	**1,582**	18,973
Investment securities	**1,400,250**	664,249
Federal Home Loan Bank dividends	**75,635**	125,234
Total interest income	**26,901,340**	23,366,647
Interest expense:		
Money market, NOW and savings deposits	**1,640,501**	1,212,450
Time deposits	**2,211,938**	3,195,767
Borrowings	**1,607,062**	1,917,027
Total interest expense	**5,459,501**	6,325,244
Net interest income	**21,441,839**	17,041,403
Provision for loan losses	**968,870**	1,245,311
Net interest income after provision for loan losses	**20,472,969**	15,796,092
Non-interest income:		
Deposit and other service charges income	**79,903**	89,214
Income from bank owned life insurance	**343,949**	338,083
Gain on sale of investment securities available for sale	**16,553**	517,829
Other	**853,998**	455,307
Total non-interest income	**1,294,403**	1,400,433
Non-interest expense:		
Salaries and employee benefits	**5,329,600**	4,628,604
Occupancy and equipment	**568,126**	570,187
Advertising and promotion	**55,496**	6,830
Data processing and outside service fees	**1,337,228**	1,152,531
Office supplies, printing, and postage	**144,435**	105,509
Professional services	**363,122**	353,278
FDIC insurance	**183,233**	141,920
Foreclosed real estate, net	**38,239**	321,589
Director fees	**223,450**	208,725
Core deposit intangible amortization	**177,094**	222,797
Other	**741,993**	746,071
Total non-interest expense	**9,162,016**	8,458,041
Income before income taxes	**12,605,356**	8,738,484
Income taxes	**2,786,000**	1,930,000
Net income	**$ 9,819,356**	$ 6,808,484
Net income per share-basic	**$ 4.47**	$ 3.09
Net income per share-diluted	**$ 4.35**	$ 3.03
Weighted average common shares outstanding		
Basic	**2,195,699**	2,202,005
Diluted	**2,259,226**	2,250,709

PB Financial Corporation
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	2021	2020
Net income	**$ 9,819,356**	$ 6,808,484
Other comprehensive income (loss):		
Unrealized (loss) gains on investment securities arising during the period	**(871,893)**	598,385
Tax effect	**200,315**	(137,507)
	(671,578)	460,878
Reclassification to realized gains	**(16,553)**	(517,829)
Tax effect	**3,804**	118,997
	(12,749)	(398,832)
Total	**(684,327)**	62,046
Total comprehensive income	**$ 9,135,029**	$ 6,870,530

See accompanying notes.

PB Financial Corporation
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2019	2,213,034	$ 2,213,034	$ 28,833,353	$ 22,690,340	$ 214,399	$ 53,951,126
Net income	-	-	-	6,808,484	-	6,808,484
Other comprehensive income	-	-	-	-	62,046	62,046
Non-statutory stock options exercised	5,911	5,911	84,204	-	-	90,115
Incentive stock options exercised	9,450	9,450	131,029	-	-	140,479
Stock based compensation	-	-	119,262	-	-	119,262
Common stock repurchased	(44,381)	(44,381)	(1,184,658)	-	-	(1,229,039)
Cash dividends paid on common stock	-	-	-	(1,841,953)	-	(1,841,953)
Balance at December 31, 2020	2,184,014	2,184,014	27,983,190	27,656,871	276,445	58,100,520
Net income	**-**	**-**	**-**	**9,819,356**	**-**	**9,819,356**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(684,327)**	**(684,327)**
Non-statutory stock options exercised	**10,112**	**10,112**	**142,561**	**-**	**-**	**152,673**
Incentive stock options exercised	**19,150**	**19,150**	**294,844**	**-**	**-**	**313,994**
Issuance of restricted stock	**4,250**	**4,250**	**(4,250)**	**-**	**-**	**-**
Stock based compensation	**-**	**-**	**150,417**	**-**	**-**	**150,417**
Common stock repurchased	**(9,950)**	**(9,950)**	**(346,723)**	**-**	**-**	**(356,673)**
Cash dividends paid on common stock	**-**	**-**	**-**	**(2,221,411)**	**-**	**(2,221,411)**
Balance at December 31, 2021	**2,207,576**	**$ 2,207,576**	**$ 28,220,039**	**$ 35,254,816**	**$ (407,882)**	**$ 65,274,549**

PB Financial Corporation
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net income	**$ 9,819,356**	$ 6,808,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**490,408**	506,565
Accretion of acquired loan fair value marks	**(576,562)**	(423,167)
Deferred income taxes	**16,321**	(16,321)
Provision for loan losses	**968,870**	1,245,311
Impairment of foreclosed real estate	**80,804**	283,116
Stock based compensation	**150,417**	119,262
Income from bank owned life insurance	**(343,949)**	(338,083)
Net gain on sale of investment securities	**(16,553)**	(517,829)
Gain on sale of foreclosed property	**(24,034)**	-
Change in assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(250,749)**	(216,151)
Decrease (increase) in other assets	**189,519**	(415,393)
(Increase) decrease in accrued interest payable	**(33,604)**	133,389
Increase in accrued expenses and other liabilities	**342,309**	156,264
Net cash provided by operating activities	**10,812,553**	7,325,447
Cash flows from investing activities:		
Net increase in loans	**(84,044,368)**	(76,955,868)
Purchase of available for sale securities	**(57,264,234)**	(33,847,927)
Proceeds from maturities, prepayments, and calls of available for sale securities	**4,330,659**	7,130,086
Proceeds from sale of investment securities available for sale	**495,963**	14,352,033
Purchase of bank owned life insurance	**(1,000,000)**	-
Purchases of bank premises and equipment	**(70,054)**	(174,498)
Proceeds from sale of foreclosed real estate	**-**	150,000
Net redemptions (purchases) of certificate of deposits with banks	**2,305,000**	(2,470,000)
Net redemptions (purchases) of Federal Home Loan Bank stock	**720,300**	(109,300)
Net cash used by investing activities	**(134,526,734)**	(91,925,474)
Cash flows from financing activities:		
Net increase in deposits	**116,669,161**	102,057,301
Advances from borrowings	**9,762,001**	32,594,467
Repayments of borrowings	**(19,000,000)**	(31,000,000)
Stock options exercised	**466,667**	230,594
Repurchase and retirement of common stock	**(356,673)**	(1,229,039)
Cash dividends paid on common stock	**(2,221,411)**	(1,841,953)
Net cash provided by financing activities	**105,319,745**	100,811,370
Net increase (decrease) in cash and cash equivalents	**(18,394,436)**	16,211,343
Cash and cash equivalents, beginning	**56,668,778**	40,457,435
Cash and cash equivalents, ending	**$ 38,274,342**	$ 56,668,778

	2021	2020
Supplemental disclosures of cash flow information:		
Interest paid	**$ 5,493,105**	$ 6,191,855
Taxes paid	**$ 2,027,949**	$ 2,076,811
Foreclosed real estate sold and transferred to loans	**$ 1,838,034**	$ -
Unrealized (loss) gain on investment securities available for sale, net of tax	**$ (684,327)**	$ 62,046

Notes to Consolidated Financial Statements

1. Organization and Operations

Providence Bank (the "Bank") was incorporated and began banking operations on March 14, 2006. Effective March 12, 2018, the Bank became a wholly owned subsidiary of PB Financial Corporation (the "Company"), a financial holding company whose principal business activity consists of the ownership of the Bank. The Bank is engaged in general commercial and retail banking principally in Nash, Edgecombe, Wake and Wilson Counties of North Carolina. On December 16, 2019 the Company's stock began trading on OTCQX, thus triggering their designation as a public business entity.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of the Company and its wholly owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation. In 2018, the Company assumed, through business combination, junior subordinated notes issued by CB Financial Capital Trust I, a Connecticut statutory trust (the "Trust"). The Company has not included the Trust in the consolidated entity. However, the notes issued by the Company and purchased by the Trust are included on the consolidated balance sheets. In addition, the related interest expense is included on the consolidated statements of operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the 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 relate to the determination of the allowance for losses on loans.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, "Business Combinations." Under the acquisition method, the acquiring entity in a business combination recognizes all of the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including identified intangible assets, exceeds the purchase price, a bargain purchase gain is recognized.

Assets acquired and liabilities assumed from contingencies must also be recognized at fair value if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of operations from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

The acquired assets and assumed liabilities are recorded at estimated fair values. Management makes significant estimates and exercises significant judgment in accounting for business combinations. Management judgmentally assigns risk ratings to loans based on credit quality, appraisals and estimated collateral values, and estimated expected cash flows to measure fair values for loans. Real estate acquired in settlement of loans is valued based upon pending sales contracts and appraised values, adjusted for current market conditions. Core deposit intangibles are valued based on a weighted combination of the income and market approach where the income approach converts anticipated economic benefits to a present value and the market approach evaluates the market in which the asset is traded to find an indication of prices from actual transactions. Management uses quoted or current market prices to determine the fair value of investment securities. Fair values of deposits and borrowings are based on current market interest rates and are inclusive of any applicable prepayment penalties. Trust preferred securities are valued based on forecasted cash flows at the stated coupon rate and discount at a prevailing market rate.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits with banks, and federal funds sold.

Certificates of Deposit with Banks

Certificates of deposits with banks currently have original maturities ranging from January 2022 through October 2024 and bear interest at rates ranging from 0.25% to 3.05%. None of the certificates of deposits have maturities of three months or less at the time of origination.

Investment Securities Available for Sale

Investment securities available for sale are reported at fair value and consist of debt instruments that are not classified as either trading securities or as held to maturity securities. Unrealized holding gains and losses on available for sale securities are reported as a net amount in other comprehensive income, net of tax. Gains and losses on the sale of investment securities available for sale are determined using the specific-identification method. Investment securities that the Company has the positive intent and ability to hold to maturity and reported at amortized cost.

Declines in the fair value of individual held to maturity and investment securities available for sale below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans - Originated

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Loans are deemed uncollectible at the discretion of the Chief Lending Officer, based on a variety of credit, collateral, documentation, and other issues. In the case where a loan is unsecured and in default it is fully charged off.

Loans - Acquired

Acquired loans are segregated between those considered to be performing ("acquired performing") and those with evidence of credit deterioration based on such factors as past due status, nonaccrual status and credit risk ratings, or purchased credit-impaired ("PCI") loans.

In determining the acquisition date fair value of PCI loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics within the following loan categories: 1 to 4 family residential loans other than junior liens, 1 to 4 family residential junior liens, construction and land development, farmland, commercial real estate (nonowner-occupied), commercial real estate (owner-occupied), commercial and industrial, consumer, and SBA and USDA guaranteed loan categories. Expected cash flows at the acquisition date in excess of the fair value of loans are referred to as the "accretable yield" and recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, significant increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Accordingly, such loans are not classified as nonaccrual and they are considered to be accruing because their interest income relates to the accretable yield recognized under accounting for PCI loans and not to contractual interest payments. The difference between the contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference.

The difference between the fair value of an acquired performing loan pool and the contractual amounts due at the acquisition date (the "fair value discount") is accreted into income over the estimated life of the pool. The Company's policy for determining when to continue accruing interest on acquired performing loans and the subsequent accounting for such loans is essentially the same as the policy for originated loans described earlier.

Allowance for Loan Losses

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

The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may require the Company to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Decreases in expected cash flows of PCI loans with an accompanying decrease in the present value of the expected cash flows after the acquisition date are recognized by recording an allowance for credit loss. In pools where impairment has already been recognized, an increase in present values will result in a reversal of prior impairment. Management analyzes these acquired loan pools using various assessments of risk to determine and calculate an expected loss. The expected loss is derived using an estimate of a loss given default based upon the collateral type and/or specific review by loan officers. Trends are reviewed in terms of traditional credit metrics such as accrual status, past due status, and weighted average risk grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the fair value mark is assessed to correlate the directional consistency of the expected loss for each pool.

Foreclosed real estate

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed real estate expense.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which is 40 years for buildings, 3 to 20 years for furniture and equipment, and 5 years for vehicles. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Stock in Federal Home Loan Bank of Atlanta

As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Company estimated that fair value equals cost and that this investment was not impaired at December 31, 2021 and 2020.

Bank Owned Life Insurance

The Company has purchased, and acquired through acquisitions, life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value or the amount that can be realized.

Goodwill

In accordance with Generally Accepted Accounting Principles ("GAAP"), we record assets acquired and liabilities assumed at their fair value, and, as such, acquisitions typically result in recording goodwill. The Company performs a goodwill evaluation at least annually to test for goodwill impairment. Management has determined that the test for Goodwill Impairment will be effective on last day of October of each year unless economic conditions warrant an earlier analysis. As part of its testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount. If the Company determines the fair value of a reporting unit is less than the carrying amount using these qualitative factors, the Company then compares the fair value of goodwill with its carrying amount, and then measures impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Adverse conditions in our business climate, including a significant decline in future operating cash flows, a significant change in our stock price or market capitalization, or a deviation from our expected growth rate and performance may significantly affect the fair value of our goodwill and may trigger additional impairment losses, which could be materially adverse to our operating results and financial position. Goodwill has been evaluated as of our annual evaluation dates as well as for triggering events at December 31, 2021, and it was determined that no impairment was required.

Core Deposit Intangible

The Company considers its core deposits to be an intangible asset with finite lives. Core deposit intangibles are amortized using the effective interest method over their expected life which is seven years. The amortization expense of core deposit intangibles totaled $177 thousand and $223 thousand for the years ended December 31, 2021 and 2020, respectively. The accumulated amortization of core deposit intangibles totaled $900 thousand and $723 thousand as of December 31, 2021 and 2020, respectively. At December 31, 2021, the scheduled amortization expense for the core deposit intangibles is $131 thousand for 2022, $86 thousand for 2023, $40 thousand for 2024 and $3 thousand for 2025.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Uncertainty in income taxes is accounted for in accordance with the Income Taxes topic of the FASB Accounting Standards Codification, which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company's consolidated financial statements. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2021 and 2020. Interest and penalties related to income tax assessments, if any, are reflected in income taxes in the accompanying consolidated statements of operations.

Comprehensive Income

The Company reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains and losses on investment securities available for sale, net of applicable income taxes. There were realized net gains of $17 thousand and $518 thousand for the years ended December 31, 2021 and December 31, 2020 respectively.

Stock Repurchase Plan

During 2021, the Board of Directors approved a modification to the existing Stock Repurchase Plan. This allows the Company to repurchase and retire issued and outstanding shares of common stock in an aggregate amount not to exceed 155,619 shares. In 2021, the Company repurchased 9,950 shares of common stock at a cost of approximately $357 thousand. At December 31, 2021 there are 145,669 shares available to be repurchased. In 2020, the Company repurchased 44,381 shares of its common stock at a cost of approximately $1.23 million. The repurchased shares must be in accordance with the terms of the plan and repurchases cannot be executed that would result in the Bank having less than well-capitalized status with regulatory capital ratios.

Stock Based Compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the consolidated financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The cost of employee services received in exchange for an award is measured based on the grant-date fair value of the award. Excess tax benefits are reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

Per Share Results

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options, and unvested restricted stock and are determined using the treasury stock method. There were 32,250 stock options that were anti-dilutive for the year ended and December 31, 2021. There were no stock options that were anti-dilutive for the year ended December 31, 2020.

Reclassifications

Certain reclassifications of 2020 balances have been made to conform to classifications used in 2021. These reclassifications had no effect on stockholders' equity or previously reported net income.

Revenue Recognition

The Company generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, revenues are recognized with related costs to generate those revenues on a gross basis. Descriptions of noninterest revenue-generating activities are as follows.

Service Charges on Deposit Accounts - Service charges on personal and business demand deposit accounts consist of insufficient funds fees, monthly service fees, check orders, and other deposit account related fees. The Company's performance obligations include maintaining customer's deposit account(s), executing transactions, providing interest per the terms of the various account agreements, and making funds available upon maturity or at customer demand. For all revenue streams, transaction prices are disclosed with a single performance obligation applicable to each transaction. The Company has determined the service fees are recognized at a point in time and monthly service fees are earned over the statement period.

Other Fees and Income - Other fees and income primarily consist of debit and credit card income, automated teller machines ("ATM") fees, merchant services income, and other service charges. Debit and credit card income primarily consists of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant service income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Other fees and income also include other recurring revenue streams such as safety deposit rental fees and other miscellaneous revenue streams. Safe deposit boxes rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur consistent over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Sale of Foreclosed Real Estate - Income derived from contractual sales of Foreclosed Real Estate primarily consist of revenues derived from the exchange of the foreclosed asset for consideration. The Company's performance obligation is to provide access and transfer control of the specified properties to the buyer. Transaction prices are agreed upon purchase prices as stated within contracts. The transaction price is allocated entirely to the performance obligation, which is satisfied at a point in time upon the date of sale.

New Accounting Standards

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires 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 and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. On October 16, 2019, the FASB voted to delay implementation of CECL until years beginning after December 15, 2022 for certain entities, including public business entities such as the Company. The Company is still assessing the impact that this new guidance will have on its consolidated financial statements.

On March 12, 2020, the FASB issued ASU No. 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04") to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging instruments, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2022. The adoption of this standard is not expected to have material effect on the Company's operating results or financial condition.

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

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 15, 2022, the date the consolidated financial statements were available to be issued.

Subordinated debt in the amount of $12.0 million was issued on January 27, 2022. The subordinated debt requires payments of interest semi-annually on February 1st and August 1st, at the annual fixed rate of 3.50% through February 1, 2027, at which point the applicable interest rate becomes floating, subject to being reset on a quarterly basis, and scheduled interest payments are to occur on February 1, May 1, August 1, and November 1 of each year until the principal is repaid. The subordinated debt matures on February 1, 2032 and can be prepaid any time after January 27, 2027. Of the Company's outstanding balance of newly issued subordinated debt, $50 thousand is held by executive officers, directors and other related interests.

3. Investment Securities

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, are as follows:

	December 31, 2021			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
	(in thousands)			
Available for sale:				
U. S. Treasury Securities	**$ 5,135**	**$ -**	**$ (25)**	**$ 5,110**
Mortgage-backed Securities	**30,927**	**30**	**(483)**	**30,474**
Corporate securities	**18,500**	**230**	**(42)**	**18,688**
U.S. agency securities	**6,478**	**-**	**(29)**	**6,449**
Municipal securities	**23,414**	**145**	**(358)**	**23,201**
	$ 84,454	**$ 405**	**$ (937)**	**$ 83,922**

	December 31, 2020			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
	(in thousands)			
Securities available for sale:				
Mortgage-backed securities	$ 7,935	$ 152	$ -	$ 8,087
Corporate securities	11,150	37	(3)	11,184
Municipal securities	13,110	192	(22)	13,280
	$ 32,195	$ 381	$ (25)	$ 32,551

The Company realized $17 thousand of gross gains and no gross losses in its earnings from the sale of available for sales securities in 2021. The Company realized $523 thousand of gross gains and $5 thousand of gross losses in its earnings from the sale of available for sale securities in 2020.

The amortized cost and fair value of investment 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.

	Amortized Cost	**Fair Value**
	(in thousands)	
Available for sale:		
Due after one but within five years	$ 10,055	$ 10,038
Due after five but within ten years	28,630	28,874
After ten years	45,769	45,010
	$ 84,454	$ 83,922

For the purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal payments.

Securities with an amortized cost of $4.3 million and a fair value of $4.2 million were pledged to secure customer repurchase agreements at December 31, 2021. Securities with an amortized cost of $4.5 million and a fair value of $4.6 million were pledged to secure customer repurchase agreements at December 31, 2020.

The following tables show gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020. At December 31, 2021, the unrealized losses relate to eleven Municipal securities with continuous unrealized losses of twelve months or more. At December 31, 2020, there are no securities with continuous unrealized losses of more than twelve months. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased. Since none of the unrealized losses relate to the marketability of the securities or the issuer's ability to honor redemption obligations and considering that management has the intent and ability to hold these investments until recovery, none of the securities are deemed to be other than temporarily impaired. Should the Company decide in the future to sell securities in an unrealized loss position or determine that impairment of any securities is other than temporary, irrespective of a decision to sell, an impairment loss would be recognized in the period such determination is made.

	December 31, 2021					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)					
Securities available for sale:						
U.S Treasury securities	$ 5,110	$ (25)	$ -	$ -	$ 5,110	$ (25)
Mortgage-backed securities	28,817	(483)	-	-	28,817	(483)
Corporate securities	3,458	(42)	-	-	3,458	(42)
U.S. agency securities	6,449	(29)	-	-	6,449	(29)
Municipal securities	9,350	(132)	6,075	(226)	15,425	(358)
	$ 53,184	$ (711)	$ 6,075	$ (226)	$ 59,259	$ (937)

	December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)					
Securities available for sale:						
Corporate Securities	$ 2,747	$ 3	$ -	$ -	$ 2,747	$ 3
Municipal securities	4,933	22	-	-	4,933	22
	$ 7,680	$ 25	$ -	$ -	$ 7,680	$ 25

4. Loans

Following is a summary of loans at December 31, 2021 and 2020 (in thousands):

	2021	2020
Real estate loans:		
One to four family residential	$ 46,730	$ 51,080
Multi-family residential and commercial	304,404	267,893
Construction	122,698	59,500
Home equity lines of credit	14,949	17,260
Total real estate loans	488,781	395,733
Other loans:		
Commercial and industrial	52,939	51,616
Paycheck protection program loans	3,508	9,654
Consumer	5,432	7,218
Total other loans	61,879	68,488
Total loans	550,660	464,221
Less:		
Allowance for loan losses	5,541	4,592
Total loans, net	$ 545,119	$ 459,629

Loans presented above are net of unamortized loan fees of $823 thousand and $526 thousand at December 31, 2021 and 2020, respectively.

Loans are primarily made in Nash, Edgecombe, Wilson, Wake, and surrounding counties, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and industrial loans can be affected by the local economic conditions.

Outstanding loans for hotels are approximately 12% of the total loan portfolio at December 31, 2021 and 2020, included within multi-family residential and commercial real estate loans. Outstanding loans for residential rental properties are approximately 8% and 10% of the total loan portfolio at December 31, 2021 and December 31, 2020 respectively.

The Company has had loan transactions with its directors and executive officers. Such loans were made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time and did not involve more than the normal risk of collectability or present other unfavorable features. A summary of related party loan transactions is as follows (in thousands):

	2021	2020
Balance at beginning of year	$ 1,339	$ 3,170
Loan disbursements	1,776	1,401
Loan repayments	(1,448)	(3,232)
Balance at end of year	$ 1,667	$ 1,339

At December 31, 2021 and 2020, the Company had pre-approved but unused lines of credit totaling approximately $1.00 million and $1.59 million, respectively, to executive officers, directors and their related interests.

The following describes the risk characteristics relevant to each of the portfolio segments.

Real estate

Commercial and residential real estate secured loans are underwritten utilizing independent appraisal or evaluations and financial analysis of the borrowers. These loans are either cash flow loans or development loans paid from the real estate sale and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher risk and higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in real estate markets or the general economy. The properties securing the Company's commercial real estate portfolio are principally secured by non-owner occupied and owner-occupied buildings including professional practices, office and industrial properties, hotels and multi-family properties. Management monitors and evaluates commercial real estate loans based on collateral, market area and risk grade criteria. Residential real estate loans are secured by non-owner occupied and owner-occupied one to four family properties with the combined loan-to-value ratio which is usually 90% or less. Construction loans are generally based upon estimates of costs and value associated with the project as completed. Construction loans often involve the disbursement of funds with the repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans or sales of developed property. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions, availability of long-term financing and government regulation of real property.

Paycheck Protection Program

With the passage of the Paycheck Protection Program ("PPP"), administered by the Small Business Administration ("SBA") in 2020, the Company actively assisted its customers with loan applications through the program. PPP loans have a two- or five-year term and earn interest at 1%. The Company believes the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. In 2020, the Company had originated PPP loans totaling approximately $17 million and in 2021, the Company had originated PPP loans totaling approximately $13 million. Loans funded through the PPP program are guaranteed by the SBA and are loans that meet certain regulatory criteria are subject to forgiveness. In the event that the PPP loans are not fully guaranteed by the SBA, the Company could be required to establish additional allowance for credit loss through additional credit loss expense charged to earnings. As of December 31, 2021, all of the PPP loans originated in 2020 have been forgiven and all PPP loans originated in 2021 have been forgiven except for $3.5 million which remain.

Commercial and industrial

Non-real estate secured commercial and industrial loans are underwritten after analyzing the borrowers' financial condition and ability to generate profits sufficient to support the loans. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and the guarantors, as applicable. The cash flows of borrowers, however, may not materialize as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable, inventory or equipment and usually incorporate a personal guaranty. In the case of loans secured by accounts receivable, the availability of the funds for repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Consumer

Consumer loans consist of home equity lines of credit, unsecured consumer, and secured consumer loans. Consumer loans are typically underwritten after analyzing the borrowers' personal financial condition and ability to generate income sufficient to support the loans and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not materialize as expected and the collateral securing these loans may fluctuate in value. The combined loan value on these loans generally does not exceed 90%. In connection with consumer lending in general, the success of our loan collection efforts is highly dependent on the continuing financial stability of our borrowers, and our collection of consumer installment loans may be more likely to be adversely affected by a borrower's job loss, illness, personal bankruptcy or other change in personal circumstances than is the case with other types of loans.

Determining the fair value of PCI loans at acquisition required the Bank to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

For PCI loans acquired from Cornerstone Bank, changes to the accretable yield were as follows for the years ended December 31, 2021 and 2020:

	2021	2020
	(Dollars in thousands)	
Accretable yield, beginning of period	**$ 433**	$ 691
Reclassification from (to) nonaccretable yield	**126**	(54)
Accretion	**(248)**	(248)
Other changes, net	**(140)**	44
Total	**$ 171**	$ 433

The ending balances of loans and the related allowance presented by portfolio class and allowance methodology as of December 31, 2021 and 2020 are as follows (in thousands):

	December 31, 2021							
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Paycheck Protection Program Loans	Consumer	Total
Allowance for credit losses								
Beginning balance	$ 546	$ 2,449	$ 591	$ 181	$ 740	$ -	$ 85	$ 4,592
Charge-offs	-	-	-	-	(15)	-	(10)	(25)
Recoveries	5	-	-	-	-	-	-	5
Provision	(64)	570	598	(35)	(86)	-	(14)	969
Ending balance	$ 487	$ 3,019	$ 1,189	$ 146	$ 639	$ -	$ 61	$ 5,541
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	487	-	1,189	146	639	-	61	5,541
Financing receivables:								
Ending balance	$ 46,730	$ 304,404	$ 122,698	$ 14,949	$ 52,939	$ 3,508	$ 5,432	$ 550,660
Ending balance: individually evaluated for impairment	74	-	-	-	-	-	-	74
Ending balance: purchase credit impaired	333	-	58	58	-	-	-	449
Ending balance: collectively evaluated for impairment	46,323	304,404	122,640	14,891	52,939	3,508	5,432	550,137

	December 31, 2020							
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Paycheck Protection Program Loans	Consumer	Total
Allowance for credit losses								
Beginning balance	$ 481	$ 2,085	$ 474	$ 199	$ 337	$ -	$ 26	$ 3,602
Charge-offs	-	-	-	-	(278)	-	-	(278)
Recoveries	4	-	-	-	19	-	-	23
Provision	61	364	117	(18)	662	-	59	1,245
Ending balance	$ 546	$ 2,449	$ 591	$ 181	$ 740	$ -	$ 85	$ 4,592
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	546	2,449	591	181	740	-	85	4,592
Financing receivables:								
Ending balance	$ 51,080	$ 267,893	$ 59,500	$ 17,260	$ 51,189	$ 10,081	$ 7,218	$ 464,221
Ending balance: individually evaluated for impairment	-	-	-	-	-	-	-	-
Ending balance: purchase credit impaired	438	1,600	64	81	126	-	46	2,355
Ending balance: collectively evaluated for impairment	50,642	266,293	59,436	17,179	51,063	10,081	7,172	461,866

Credit Risk Profile by Internally Assigned Grade

The loan portfolio is reviewed, both internally and through the use of independent external sources, to validate the credit risk on a periodic basis. Also, loans are monitored for credit quality on a monthly basis through evaluation of past due status. The composition of the loans outstanding at December 31, 2021 and 2020 by credit quality indicator is provided below. The credit quality indicators used are dependent on the portfolio segment to which the loan relates.

Loan credit quality indicators for all loans within the portfolio are developed through review of individual borrowers on an ongoing basis. The indicators represent the rating for loans as of the date presented based on the most recent assessment performed. These credit quality indicators are defined below (in thousands).

	December 31, 2021							
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Paycheck Protection Program Loan	Consumer	Total
Grade:								
Superior	$ -	$ -	$ 120	$ -	$ 2,187	$ -	$ 348	$ 2,655
Minimal	1,538	5,063	-	1,803	1,163	-	49	9,616
Average	18,584	107,706	30,049	4,425	34,211	-	194	195,169
Acceptable	26,364	191,570	93,378	8,555	15,523	3,508	4,781	343,679
Special Mention	74	-	58	20	-	-	-	152
Substandard	180	-	-	21	-	-	-	201
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 46,740	$ 304,339	$ 123,605	$ 14,824	$ 53,084	$ 3,508	$ 5,372	551,472
Overdrafts								11
Net deferred fees								(823)
Total								$ 550,660

	December 31, 2020							
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Paycheck Protection Program Loan	Consumer	Total
Grade:								
Superior	$ -	$ -	$ 220	$ 96	$ 2,018	$ -	$ 642	$ 2,976
Minimal	1,725	8,811	29	1,461	1,348	-	9	13,383
Average	15,905	79,013	20,067	5,680	27,774	-	317	148,756
Acceptable	33,042	180,045	39,498	9,852	20,254	10,081	6,127	298,899
Special Mention	157	-	64	24	93	-	-	338
Substandard	239	7	-	22	63	-	46	377
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 51,068	$ 267,876	$ 59,878	$ 17,135	$ 51,550	$ 10,081	$ 7,141	464,729
Overdrafts								18
Net deferred fees								(526)
Total								$ 464,221

Risk Grade Definitions

Superior
Credits in this category are fully secured by cash equivalents or high grade, readily marketable securities.

Minimal
Credits in this category are to a borrower of unquestionable financial strength. Financial information exhibits superior earnings, leverage and liquidity positions, which firmly establish a repayment source, that is substantial in relation to debt. These borrowers would generally have access to national credit and equity markets.

Average
Credits in this category are to borrowers of satisfactory financial strength. Earnings performance is consistent with primary and secondary sources of repayment well defined and adequate to retire the debt in a timely and orderly fashion. These businesses would generally exhibit satisfactory asset quality and liquidity with moderate leverage, average performance to their peer group and experienced management in key positions. This risk grade classification may also include a loan in which strong reliance for a secondary repayment source is placed on a guarantor who exhibits the ability and willingness to repay.

Acceptable
Credits in this category are sound and collectible but contain risk. Although asset quality remains acceptable, the borrower could have a smaller and/or less diverse asset base, lower liquidity and limited debt capacity. The borrower may also have the following characteristics:

- Earnings performance is satisfactory but the borrower might not be strong enough to sustain major setbacks.

- Limited management experience and depth.

These credits may have a reliance for a secondary repayment source placed on a guarantor who exhibits the ability and willingness to repay. These credits may need supervision by the lender and covenants structured to ensure adequate protection. These credits may also include satisfactory borrowers/guarantors in industries with a higher than normal credit risk.

Special Mention
Credits in this category are potentially weak credits. Assets rated Special Mention are currently protected but potentially weak. These assets constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of Substandard. Loans in this category have potential weaknesses, which may, if not corrected, weaken the asset, or inadequately protect the Company's credit position at some future date.

Substandard
Assets classified Substandard have a well-defined weakness(es) in the credit that jeopardize the repayment of all principal and interest in accordance with the contractual terms of the credit. Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or the collateral that is pledged.

Doubtful
An asset 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 possibility of loss is extremely high, but because of certain factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Loss
Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets are not warranted.

Age Analysis of Past Due Financing Receivables

The aging of the outstanding loans by class at December 31, 2021 and 2020 is provided in the table below (in thousands). The calculation of days past due begins on the day after payment is due and includes all days through which all required interest or principal have not been paid. Loans less than 30 days past due are considered current due to certain grace periods that allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
1 – 4 Family Residential Real Estate	**$ -**	**$ -**	**$ -**	**$ -**	**$ 46,730**	**$ 46,730**
Multi-Family Residential & Commercial - Real Estate	**-**	**-**	**-**	**-**	**304,404**	**304,404**
Construction Real Estate	**-**	**-**	**-**	**-**	**122,698**	**122,698**
Home Equity Lines of Credit	**225**	**-**	**-**	**225**	**14,724**	**14,949**
Commercial and industrial	**-**	**-**	**-**	**-**	**52,939**	**52,939**
Paycheck Protection Program Loans	**-**	**-**	**-**	**-**	**3,508**	**3,508**
Consumer loans	**-**	**-**	**-**	**-**	**5,432**	**5,432**
Total	**$ 225**	**$ -**	**$ -**	**$ 225**	**$ 550,435**	**$ 550,660**

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
1 – 4 Family Residential Real Estate	$ -	$ -	$ -	$ -	$ 51,080	$ 51,080
Multi-Family Residential & Commercial - Real Estate	-	-	-	-	267,893	267,893
Construction Real Estate	-	-	-	-	59,500	59,500
Home Equity Lines of Credit	-	-	-	-	17,260	17,260
Commercial and industrial	-	-	-	-	51,189	51,189
Paycheck Protection Program Loans	-	-	-	-	10,081	10,081
Consumer loans	-	-	-	-	7,218	7,218
Total	$ -	$ -	$ -	$ -	$ 464,221	$ 464,221

There were no loans greater than 90 days past due and accruing interest as of December 31, 2021 and 2020.

Impaired Loans

There was one impaired loan with a recorded investment and legal balance of $74 thousand and no related allowance recorded as of December 31, 2021. The average balance of this loan was $75 thousand and the interest income recognized while impaired was $2 thousand. There were no loans classified as impaired as of December 31, 2020.

Financing Receivables on Nonaccrual Status

The recorded investment, by class, in loans on nonaccrual status at December 31, 2021 and 2020 is as follows (in thousands):

	2021	2020
1 – 4 Family Residential Real Estate	**$ 146**	$ 88
Home Equity Lines of Credit	**21**	22
Commercial and industrial	**-**	25
	$ 167	$ 135

At December 31, 2021, nonaccrual loans consisted of acquired loans totaling $93 thousand. At December 31, 2020, nonaccrual loans consisted of acquired loans totaling $135 thousand. There were no loans modified as troubled debt restructurings within the previous twelve months for 2021 and 2020.

5. Premises and Equipment

Following is a summary of premises and equipment at December 31, 2021 and 2020 (in thousands):

	2021	2020
Land	**$ 726**	$ 726
Buildings	**1,642**	1,628
Furniture and equipment	**903**	896
Vehicles	**68**	59
Leasehold improvements	**356**	356
	3,695	3,665
Accumulated depreciation and amortization	**(1,327)**	(1,197)
Total	**$ 2,368**	$ 2,468

Depreciation and amortization amounting to $170 thousand and $183 thousand for the years ended December 31, 2021 and 2020, respectively is included in occupancy and equipment expense, data processing and outside service fees, and other expenses.

The Company has non-cancellable operating leases for two branch locations. These leases have various expiration dates through 2022. Rental expense for operating leases during 2021 and 2020 was $138 thousand and $111 thousand, respectively.

Amounts recognized as right-of-use assets related to operating leases are included in other assets while lease liabilities are included in accrued expenses and other liabilities. As of December 31, 2021, both the right-of-use assets and lease liabilities related to operating leases totaled $137 thousand. As of December 31, 2020, both the right-of-use assets and lease liabilities related to operating leases totaled $272 thousand.

The minimum future rental payments under the leases described above is $142 thousand for the year ended December 31, 2022 and none thereafter.

6. Deposits

Deposits consist of the following (in thousands):

	2021	2020
Non-interest bearing demand	**$ 107,479**	$ 78,633
Savings	**14,460**	11,117
Money market and NOW	**258,333**	194,923
Time	**192,834**	171,739
Total	**$ 573,106**	$ 456,412

The aggregate amount of time deposits in denominations that may exceed FDIC insurance limits of $250 thousand or more at December 31, 2021 and 2020 was $39.2 million and $23.8 million, respectively. Interest expense on such deposits aggregated approximately $371 thousand and $352 thousand, respectively, in 2021 and 2020.

At December 31, 2021, the scheduled maturities of time deposits are as follows (in thousands):

	Less than $250,000	$250,000 or more	Total
2022	$ 110,021	$ 30,871	$ 140,892
2023	26,343	7,539	33,882
2024	9,009	773	9,782
2025	6,802	-	6,802
2026	1,476	-	1,476
Thereafter	-	-	-
Total	$ 153,651	$ 39,183	$ 192,834

7. Borrowings

Borrowings consist of the following (in thousands):

Type	Maturing in Year Ending	Interest Rate	December 31, 2021	December 31, 2020
Short term borrowings:				
FHLB advances:				
Fixed rate hybrid	2022	0.219%	**$ 10,000**	$ -
Convertible	2020	1.655%	**-**	8,000
Total FHLB advances			**10,000**	8,000
Repurchase agreements			**2,911**	3,291
Total short-term borrowings			**$ 12,911**	$ 11,291
Long term borrowings:				
FHLB advances:				
Fixed rate hybrid	2023	1.630%	**$ 5,000**	$ 5,000
Fixed rate hybrid	2023	1.742%	**2,000**	2,000
Fixed rate hybrid	2024	2.690%	**5,000**	5,000
Fixed rate hybrid	2024	1.450%	**-**	5,000
Fixed rate hybrid	2025	2.232%	**8,000**	8,000
Fixed rate hybrid	2023	3.267%	**2,000**	2,000
Fixed rate hybrid	2021	1.795%	**-**	6,000
Fixed rate hybrid	2029	0.823%	**8,000**	8,000
Total FHLB advances			**30,000**	41,000
Subordinate debt			**11,878**	11,837
Junior subordinate debt			**4,290**	4,232
Term loan			**57**	71
Total long-term borrowings			**$ 46,225**	$ 57,140

Pursuant to collateral agreements with the Federal Home Loan Bank ("FHLB") at December 31, 2021 and 2020, advances are secured by pledged loans with a carrying amount of $55.5 million and $52.5 million, respectively. At December 31, 2021 and 2020, the Company's maximum borrowing availability was equal to 30% of total assets.

The Company enters into agreements with customers to transfer excess funds in demand deposit accounts into a repurchase agreement. Under the repurchase agreement, the Company sells the customer an interest in securities that are United States government agencies. The customer's interest in the underlying security shall be repurchased by the Company at the opening of the next banking day. The rate fluctuates monthly and is based on current deposit rates of the Company. As of December 31, 2021 and 2020, the Company had a balance outstanding of $2.9 million and $3.3 million, respectively, under these repurchase agreements.

Through the business combination of CB Financial Corporation, the Company assumed $5.0 million of the Trust's floating rate preferred securities (the "trust preferred securities") and $155,000 in common securities (the "Common Securities"), adjusted for fair value. Prior to the merger, CB Financial Capital Trust I, (the "Trust") was formed for the sole purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in junior subordinated debentures (the "debentures"). The debentures held by the Trust are its sole assets. The Company owns 100% of the Trust's outstanding common securities and unconditionally guarantees the Trust financial obligations. The debentures and the trust preferred securities of the Trust bear an interest rate of LIBOR (London Inter-Bank Offered Rate) plus 1.85%. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but will rank prior to trust common securities if, and so long as, the Company fails to make principal or interest payment on the debentures. The dividends paid to holders of the trust preferred securities, which are recorded as interest expense, are deductible for income tax purposes. The debentures and trust preferred securities each have 30-year lives and are callable by the Trust without penalty after July 31, 2010. The trust preferred securities issued the Trust presently qualify as Tier 1 regulatory capital.

The Company has available lines of credit with various credit facilities to provide additional liquidity if and as needed. These include available lines of credit with correspondent banks totaling $48.0 million and $34.3 million at December 31, 2021 and 2020, respectively. There were no federal funds purchased outstanding under these lines of credit at December 31, 2021 and 2020.

Subordinated debt in the amount of $12.0 million was issued on December 18, 2019. The subordinated debt requires payments of interest semi-annually on January 15th and July 15th, at the annual fixed rate of 5.375% through January 15, 2025, at which point the applicable interest rate becomes floating, subject to being reset on a quarterly basis, and scheduled interest payments are to occur on January 15, April 15, July 15, and October 15 of each year until the principal is repaid. The subordinated debt matures on January 15, 2030 and can be prepaid any time after December 18, 2024. Of the Company's outstanding balance of subordinated debt, $1 million is held by executive officers, directors and other related interests at December 31, 2021 and 2020.

The Company entered into a zero percent, $84,000 term loan with an individual on February 5, 2020. The scheduled maturity date of the loan is January 5, 2025, with monthly principal-only payments of $1,167 starting March 5, 2020 and a final payment of $1,143 due at maturity. The agreement is unsecured. As of December 31, 2021, the outstanding principal balance of the loan is approximately $57 thousand.

8. Income Taxes

The significant components of the provision for income taxes for the years ended December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Current tax provision		
Federal	$ 2,480	$ 1,713
State	290	233
Total current tax provision	2,770	1,946
Deferred tax (benefit) expense		
Federal	14	(7)
State	2	(9)
Total deferred tax (benefit) expense	16	(16)
Provision for income tax expense	$ 2,786	$ 1,930

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21% to income before income taxes for the years ended December 31, 2021 and 2020, respectively, is summarized below (in thousands):

	2021	2020
Tax expense computed at the statutory federal rate	**$ 2,647**	$ 1,835
Increase (decrease) resulting from:		
State income taxes, net of federal tax effect	**230**	177
Incentive stock options	**(27)**	(3)
Tax exempt interest	**(38)**	(14)
Cash surrender value of life insurance	**(72)**	(71)
Other	**46**	6
Provision for income taxes	**$ 2,786**	$ 1,930

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax positions at December 31, 2021 and 2020 are as follows (in thousands):

	2021	2020
Deferred tax assets relating to:		
Allowance for loan losses	**$ 1,239**	$ 1,016
Stock based compensation	**54**	38
Pre-opening costs and expenses	**5**	7
Impairment of foreclosed real estate	**-**	158
Deferred compensation	**445**	415
Federal NOL carryforward	**888**	941
Capital loss carryforward	**84**	84
Lease liability	**33**	62
Property and equipment	**10**	-
Unrealized loss on available for sale securities	**122**	-
Other	**224**	146
Total deferred tax assets	**3,104**	2,867
Deferred tax liabilities relating to:		
Property and equipment	**-**	(2)
Unrealized gain on available for sale securities	**-**	(82)
Deferred loan fees	**(245)**	(217)
Prepaid expenses	**(23)**	(23)
Fair value mark, net	**(223)**	(143)
Right-of-use lease asset	**(123)**	(62)
Other	**(37)**	(72)
Total deferred tax liabilities	**(651)**	(601)
Net recorded deferred tax asset	**$ 2,453**	$ 2,266

The Company has approximately $4.2 million of federal net operating losses. Approximately $3.1 million will begin to expire in 2029 and $1.2 million have indefinite lives.

FASB ASC 740, Accounting for Uncertainty in Income Taxes clarifies the account for uncertain tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential liabilities that could have a risk of greater than 50% likely of being realized upon settlement. As of December 31, 2021 and 2020, management has determined that the Company does not have any material uncertain tax positions.

The Company's has federal and North Carolina net operating losses from prior tax years. Income tax jurisdictions have the ability to examine tax years in which net operating losses were created when those tax losses are actually utilized.

The Company's federal and state tax returns for the years ended December 31, 2020, 2019, and 2018 are open and subject to examination by taxing authorities.

9. Regulatory Matters

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to the North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of a bank.

The Bank is subject to various regulatory capital requirements administered by federal and state 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 amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2021 and 2020 that the Bank meets all capital adequacy requirements to which it is subject, as set forth below:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2021						
Total Capital (to Risk-Weighted Assets)	**$ 81,634**	**13.46%**	**$ 63,663**	**10.50%**	**$ 60,632**	**10.0%**
Tier I Capital (to Risk-Weighted Assets)	**76,093**	**12.55%**	**51,537**	**8.50%**	**48,505**	**8.0%**
Common Equity (to Risk-Weighted Assets)	**76,093**	**12.55%**	**42,442**	**7.00%**	**39,410**	**6.5%**
Tier I Capital (to Average Assets)	**76,093**	**10.75%**	**28,324**	**4.00%**	**35,405**	**5.0%**
December 31, 2020						
Total Capital (to Risk-Weighted Assets)	$ 72,081	14.57%	$ 51,930	10.50%	$ 49,457	10.0%
Tier I Capital (to Risk-Weighted Assets)	67,489	13.65%	42,038	8.50%	39,565	8.0%
Common Equity (to Risk-Weighted Assets)	67,489	13.65%	34,620	7.00%	32,147	6.5%
Tier I Capital (to Average Assets)	67,489	11.65%	23,181	4.00%	28,976	5.0%

10. Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. 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 or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In management's opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions 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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2021 is as follows (in thousands):

Financial instruments whose contract amounts represent credit risk:		
Undisbursed lines of credit	$	41,235
Commitments to extend credit		95,361
Letters of credit		1,000

11. Disclosures About Fair Values of Financial Instruments

Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks, Interest-Earning Deposits with Banks, and Federal Funds Sold

The carrying amounts reported in the balance sheet for these instruments approximate their fair values due to the short-term nature of these instruments.

Certificates of Deposit with Banks

The fair value of certificates of deposit with other banks is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, level 2 fair value is estimated using quoted market prices for similar securities, or other inputs that are observable or can be corroborated by observable market data. Level 3 securities are valued utilizing various assumptions such as valuation multiples, discounts for lack of marketability or illiquidity, and default rates.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Loans

The valuation of loans was impacted by the adoption of ASU 2016-01. Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and other market factors.

Federal Home Loan Bank Stock

The carrying amount is a reasonable estimate of fair value.

Deposits and Borrowings

The fair value of demand deposits and savings, money market and NOW accounts is the amount payable on demand at the reporting date. The fair value of time deposits and borrowings are estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk it is not practicable to estimate the fair value of future financing commitments.

The carrying amounts and estimated fair values of financial instruments, none of which are held for trading purposes, are as follows at December 31, 2021 and 2020:

	2021		2020	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
		(Dollars in thousands)		
Financial assets:				
Cash and due from banks	**$ 7,232**	**$ 7,232**	$ 6,939	$ 6,939
Interest-earning deposits with banks	**29,214**	**29,214**	46,803	46,803
Federal funds sold	**1,829**	**1,829**	2,927	2,927
Certificates of deposit with banks	**4,266**	**4,298**	6,571	6,645
Investment securities available for sale	**83,922**	**83,922**	32,551	32,551
Loans, net	**545,119**	**548,773**	464,221	467,295
Federal Home Loan Bank Stock	**1,794**	**1,794**	2,514	2,514
Accrued interest receivable	**1,883**	**1,883**	1,632	1,632
Financial liabilities:				
Deposits	**573,106**	**574,557**	456,413	458,509
Accrued interest payable	**490**	**490**	524	524
Short term borrowings	**12,911**	**12,911**	11,291	11,278
Long term borrowings	**46,225**	**46,957**	57,140	55,429

12. Fair Value Measurement

The FASB has issued authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Recurring Basis Measurements

The following tables set forth by level within the fair value hierarchy the Company's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2021 and 2020. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Fair values of assets and liabilities measured on a recurring basis are as follows (in thousands):

		Fair Value Measurements at December 31, 2021		
Description	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	$ 5,110	$ -	$ 5,110	$ -
Mortgage-backed securities	30,474	-	30,474	-
Corporate Securities	18,688	-	11,188	7,500
U.S. agency securities	6,449	-	6,449	-
Municipal securities	23,201	-	23,201	-
Total securities available for sale	$ 83,922	$ -	$ 76,422	$ 7,500

		Fair Value Measurements at December 31, 2020		
Description	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets:				
Investment securities available for sale:				
Mortgage-backed securities	$ 8,087	$ -	$ 8,087	$ -
Corporate Securities	11,184	-	9,184	2,000
Municipal securities	13,280	-	13,280	-
Total securities available for sale	$ 32,551	$ -	$ 30,551	$ 2,000

The valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis are as follows.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted and money prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Nonrecurring Basis Measurements

Certain other financial assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There were no assets measured on a nonrecurring basis at December 31, 2021. Assets measured on a non-recurring basis at December 31, 2020 are as follows (in thousands):

		Fair Value Measurements at December 31, 2020		
Description	**Fair Value**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Assets:				
Foreclosed real estate, net	$ 1,895	$ -	$ -	$ 1,895

There are no liabilities measured at fair value on a nonrecurring basis. The valuation methodologies used for assets recorded at fair value on a nonrecurring basis are as follows.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

At December 31, 2021 and December 31, 2020, there were no loans identified as impaired which have been subjected to fair value adjustments.

Foreclosed Real Estate

Real estate owned balances are adjusted to fair value upon transfer of the loans to real estate owned. Real estate acquired in settlement of loans is recorded initially at fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed real estate asset as nonrecurring Level 3.

There were no Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2021. As of December 31, 2020, Level 3 assets and liabilities measured at fair value on a non-recurring basis with the significant unobservable inputs used in the fair value measurements were as follows:

Level 3 Assets/ Liabilities with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
2020				
Foreclosed real estate, net	$ 1,895	Discounted appraisals (1)	Appraisal adjustments (2)	8%

(1) Fair value is generally based on appraisals of the underlying collateral but may also be based on discounted cash flows for some loans.

(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

13. Employee And Director Benefit Plans

Employment Contracts

The Company has entered into employment agreements with three executive officers to ensure a stable and competent management base. The agreements provide for a term ranging from two to three years, which extends automatically for an additional year unless terminated by the Company or the executive. The agreements provide for benefits as spelled out in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers' right to receive certain vested rights, including compensation. In the event of a change in control of the Company and in certain other events, as defined in the agreements, the Bank or any successor to the Company will be bound to the terms of the contracts.

401(k) Retirement Plan

The Company has a 401(k) retirement plan that covers all eligible employees. The Company makes discretionary contributions, determined on an annual basis, to the retirement plan. During 2021 and 2020, the Company matched 100% of employee contributions on the first 6% of each employee's covered compensation. A participant vests in the Company's matching contributions 20% annually over five years of service. Matching expenses and discretionary contributions totaled approximately $257 thousand for the year ended December 31, 2021 and matching expenses totaled approximately $193 thousand for the year ended December 31, 2020.

Incentive Bonus Plan

In 2017, the Company adopted an employee incentive bonus plan that covers all eligible employees. The bonus is calculated based on percentages of salary designations, which are defined within the plan. The bonus is accrued for monthly and paid out subsequent to year end. Bonus expenses totaled approximately $706 thousand and $596 thousand for the years ended December 31, 2021 and 2020, respectively.

Salary Continuation Agreement

In 2012, the Company adopted a salary continuation agreement to provide benefits for members of management. The associated liability was calculated by discounting the anticipated future cash flows at 4.5%, resulting in an accrued liability for this obligation totaling $1.9 million and $1.8 million, respectively, at December 31, 2021 and 2020.

Stock Based Compensation

During 2017, the Company adopted, with shareholder approval, the 2017 Omnibus Stock Incentive Plan (the "Plan"). In 2021, the Plan was amended to increase by 150,000 shares the size of the pool of authorized but unissued shares of the Company's common stock available for issuance under the Plan. The Plan allows for grants in the form of incentive stock options, non-statutory stock options, restricted stock, stock bonuses, and purchase rights. Employees and Directors are both eligible to receive grants under the Plan. As of December 31, 2021, there are 131,500 shares reserved and available for future grants.

Stock Options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant.

Volatility has been determined based upon the Company's trading history. The expected life and forfeiture assumptions are based on historical data. Dividend yield is based on the yield at the time of the option grant.

Assumptions used for grants during 2021 were as follows:

	2021
Assumptions in Estimating Option Values	
Weighted-average volatility	13.78%
Expected dividend yield	3.00%
Risk-free interest rate	1.38%
Expected life (years)	9.0

A summary of option activity under the stock option plans during the years ended December 31, 2021 and 2020 is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding December 31, 2019	186,093	$ 19.82	7.75 years
Granted	-	-	
Exercised	(15,361)	15.01	
Forfeited	(150)	13.42	
Expired	-	-	
Outstanding December 31, 2020	170,582	20.26	6.70 years
Granted	**32,250**	**35.47**	
Exercised	**(29,262)**	**15.95**	
Forfeited	**-**	**-**	
Expired	**-**	**-**	
Outstanding December 31, 2021	**173,570**	**$ 23.81**	**6.64 years**
Exercisable December 31, 2021	**82,970**	**$ 19.85**	**5.55 years**

For the years ended December 31, 2021 and 2020, the fair value of options that contractually vested amounted to $116 thousand and $124 thousand, respectively. Stock based compensation has been presented in the consolidated statements of cash flows as an adjustment to reconcile net income to net cash provided by operating activities.

A summary of the status of the Company's non-vested stock options as of December 31, 2021 and 2020, and changes during the years then ended is presented below:

	Shares	Weighted average grant date fair value
Non-vested – December 31, 2019	139,994	$ 3.40
Granted	-	-
Vested	(45,534)	3.18
Forfeited	(150)	0.52
Non-vested – December 31, 2020	94,310	$ 3.73
Granted	**32,250**	**2.93**
Vested	**(35,960)**	**3.11**
Forfeited	**-**	**-**
Non-vested – December 31, 2021	**90,600**	**$ 3.64**

As of December 31, 2021 and 2020, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans was $235 thousand and $319 thousand, respectively.

Restricted Stock

In 2021, 4,250 shares of restricted stock were granted at fair market value from the Plan. These shares are scheduled to vest after four years. The weighted average grant date fair value is $35.00 per share. As of December 31, 2021, there are 4,250 shares unvested and unrecognized compensation expense relating to these shares is $118 thousand.

14. Parent Company Financial Data

The following is a summary of the condensed parent-only financial statements of the Company as of and for the year ended December 31, 2021 and 2020:

Condensed Balance Sheets
December 31, 2021 and 2020

	2021	2020
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 2,448	$ 2,976
Other assets	155	155
Investment in subsidiary	80,009	72,266
	$ 82,612	$ 75,397
Liabilities and Stockholders' Equity		
Borrowings	$ 17,033	$ 16,992
Other liabilities	304	304
	17,337	17,296
Stockholders' Equity:		
Common stock	2,208	2,184
Additional paid-in-capital	28,220	27,983
Retained earnings	35,255	27,658
Accumulated other comprehensive (loss) income	(408)	276
	65,275	58,101
	$ 82,612	$ 75,397

Condensed Statements of Operations
Years Ended December 31, 2021 and 2020

	2021	2020
	(Dollars in thousands)	
Equity in undistributed earnings of subsidiary	$ 8,277	$ 7,285
Dividend from Bank	2,330	340
Interest expense	(791)	(821)
Miscellaneous income	3	4
	$ 9,819	$ 6,808

PB Financial Corporation
Board of Directors

Richard C. Anderson
Chairman of the Board of PB Financial Corporation / Providence Bank, Senior Managing Partner of Anderson Farms of Edgecombe County, Tarboro, North Carolina and Chairman of the Board of Glenco Industrial Properties, LLC, Tarboro, North Carolina

Ted E. Whitehurst
President & Chief Executive Officer, PB Financial Corporation / Providence Bank
Rocky Mount, North Carolina

Michael W. Boddie
President of Boddie Noell Enterprises
Rocky Mount, North Carolina

Joseph B. Brewer III
Secretary of PB Financial Corporation / Providence Bank
President of Brewer Foods, Inc.
Rocky Mount, North Carolina

William F. Davis
Vice President/CFO of Barnhill Contracting Company
Rocky Mount, North Carolina

Wiley B. Gillam III
A Farmer and Owner of Gillam & Mason, Inc.,
Harrellsville, North Carolina

Douglas K. Martin
Family Office Manager, Brigade Properties, LLC
Henrico, North Carolina

Bryan T. Mayo
Vice President Sales and Production of Mayo Knitting Mills
Tarboro, North Carolina

Melvin M. Mitchell
President of Melvin M. Mitchell Agency, Inc., Exclusive Agency Allstate Insurance Company
Rocky Mount, North Carolina

PB Financial Corporation
Management and Personnel

Executive Officers

Ted E. Whitehurst
President & Chief Executive Officer
PB Financial Corporation / Providence Bank

Robert H. Ladd III
Executive Vice President & Chief Lending Officer
Providence Bank

David E. Keul
Executive Vice President, Chief Financial Officer & Treasurer
PB Financial Corporation / Providence Bank

Bank Personnel

Commercial Lending
Jeff Tobias
Taylor Barker
Denese Davis
Tom Felton
Denise Winstead

Wilson Branch
Jeff Hamilton
Justin Alford
Denise Davis
Tonia Handy
Carla Harvey
Vicki Joyner
Marie MacInnis
Buzz Wilkinson

Raleigh Branch
Jeff Tobias
Dana Coste
Summer Stafford

Sunset Avenue Branch
Linda Hendricks
Michelle Deitz
Casey Fly-Jones

Winstead Avenue Branch
Joy Barrett
Tabitha Williams

Nashville Branch
Dylan Bunch
Rosetta Barnes
Tonya Gehring

Tarboro Branch
Steven Cobb
Marlou Coker
Rhonda Etheridge
Fran Peele
Nancy Webb

Corporate
Trudy Brinson
Jennifer Ambrose
Tyler Amerson
Angela Bennett
Lyn Brown
Robin Connie
Jim Fitzgerald
Teresa Frazier
Kim Gemberling
Joel Gilmore
Michelle Joyner
Valerie Moore
Everett Rouse
Lisa Stimson

PB Financial Corporation
General Corporate Information

Office Locations

Corporate & Commercial Loans
450 North Winstead Avenue
Rocky Mount, NC 27804

Sunset Avenue Branch
2401 Sunset Avenue
Rocky Mount, NC 27804

Wilson Branch
3710 Nash Street North
Wilson, NC 27896

Winstead Avenue Branch
450 North Winstead Avenue
Rocky Mount, NC 27804

Nashville Branch
241 West Washington Street
Nashville, NC 27856

Tarboro Branch
325 Main Street
Tarboro, NC 27886

Raleigh Branch
100 E Six Forks Rd Ste 304
Raleigh, NC 27607

Regulatory and Securities Counsel
Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail
Suite 300
Raleigh, NC 27607

Stock Transfer Agent
Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, NY 11717

Independent Auditors
Dixon Hughes Goodman LLP
1003 Red Banks Road
Greenville, NC 27858

Annual Stockholders Meeting

The Annual Meeting of the stockholders of PB Financial Corporation will be held at 4:00 p.m. on April 28, 2022 at 100 Southern Boulevard, Rocky Mount, North Carolina.

Common Stock

The Company's outstanding shares of common stock were held by approximately 368 holders of record (excluding shares held in street name) as of January 31, 2022.

Market for the Common Stock

The Company's common stock is traded on the OTCQX under the symbol "PBNC". The closing price on December 31, 2021 was $40.00 per share.

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.