



# **2020 ANNUAL REPORT**



To the Shareholders of CBM Bancorp, Inc.:

We are pleased to provide the Annual Report to Shareholders of CBM Bancorp, Inc., and its wholly owned subsidiary Chesapeake Bank of Maryland for the fiscal year ending December 31, 2020.

The impact of the coronavirus pandemic on daily life was unique and remarkable and is expected to continue during much of 2021. Safety protocols, lockdowns, and government measures to shore up the economy have touched every aspect of life as well as the way we conduct business.

We are proud of our response to the pandemic and the measures we implemented to keep our employees and customers safe. We assisted many customers in securing Payment Protection Program (PPP) loans, and in certain instances we modified loan terms to provide borrowers temporary payment relief. The way we approached this moment in history says a lot about our Company, our culture, and our team. We are grateful to our employees for their dedication, flexibility, and resilience.

Our results in 2020 reflect the strength of our operating model and balance sheet. The Company ended the 2020 fiscal year with total assets of \$234,800,000 representing an increase of 6% from the previous year. While our asset quality metrics remain solid, at December 31, 2020 the Company's net loans totaled \$148,600,000 representing a decrease of 6% from the previous year. We are pleased to report that the Company recorded consolidated net income for the fiscal year of \$943,000, representing a 4% increase from the previous year. In addition, we gladly report that through March of 2021 we have repurchased and retired a total of 705,000 shares of the Company's outstanding shares of common stock.

While the continuing low interest rate environment remains challenging, we will continue to strive for greater success in 2021 and beyond. Our risk management practices are sound and our regulatory capital ratios continue to exceed industry standards. Our liquidity balances are substantial, your Company is well positioned to participate in future opportunities.

Due to the continued health and travel concerns associated with the coronavirus pandemic, as well as our limited meeting space we request that you vote your proxy prior to our annual meeting scheduled for May 12, 2021.

On behalf of the Board of Directors and our employees, thank you for your support during the year and your ongoing trust.

Sincerely,

William J. Bocek, Jr.  
Chairman of the Board

Joseph M. Solomon  
President

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**001-38680**

(Commission File No.)

**CBM BANCORP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

**83-1095537**

\_\_\_\_\_  
(State or Other Jurisdiction of Incorporation or Organization)

\_\_\_\_\_  
(I.R.S. Employer Identification No.)

**2001 East Joppa Road, Baltimore, Maryland**

**21234**

\_\_\_\_\_  
(Address of Principal Executive Offices)

\_\_\_\_\_  
(Zip Code)

**410-665-7600**

\_\_\_\_\_  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

**Common Stock, par value \$0.01 per share**

**The Nasdaq Stock Market, LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the closing price of the common stock of \$12.30 as of June 30, 2020 was \$46,724,723.

As of March 23, 2021, the number of shares of common stock outstanding was 3,527,033.

**Documents Incorporated by Reference:**

Proxy Statement for the Registrant's Annual Meeting of Stockholders (Part III)

# INDEX

## Part I

|                                    | <b><u>Page</u></b> |
|------------------------------------|--------------------|
| Item 1. Business                   | 1                  |
| Item 1A. Risk Factors              | 31                 |
| Item 1B. Unresolved Staff Comments | 31                 |
| Item 2. Properties                 | 31                 |
| Item 3. Legal Proceedings          | 31                 |
| Item 4. Mine Safety Disclosures    | 31                 |

## Part II

|   |    |
|---|----|
| Item 5. Market for Registrant's Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities | 32 |
| Item 6. Selected Financial Data   | 34 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                       | 35 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk   | 47 |
| Item 8. Financial Statements and Supplementary Data   | 47 |
| Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure                        | 48 |
| Item 9A. Controls and Procedures  | 48 |
| Item 9B. Other Information  | 48 |

## Part III

|   |    |
|---|----|
| Item 10. Directors, Executive Officers and Corporate Governance   | 49 |
| Item 11. Executive Compensation   | 49 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 49 |
| Item 13. Certain Relationships and Related Transactions and Director Independence                       | 49 |
| Item 14. Principal Accounting Fees and Services   | 49 |

## Part IV

|   |    |
|---|----|
| Item 15. Exhibits and Financial Statement Schedules | 50 |
| Item 16. Form 10-K Summary                          | 51 |
| Signatures  | 52 |

## Part I

### Item 1. Business

#### Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect,” “will,” “may” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to, and do not take any obligation to update any forward-looking statements after the date of this annual report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market area, including employment prospects, real estate values and conditions, that are worse than expected, and adverse effects from the coronavirus (“COVID-19”);
- competition among depository and other financial institutions;
- demand for loans and deposits in our market area;
- adverse changes and volatility in securities and credit markets;
- inflation and changes in the interest rate environment that reduces our margins and yields, the fair value of financial instruments or our level of loan originations, or prepayments on loans we have made;
- changes in the quality or composition of our loan or investment portfolio;
- our ability to access cost-effective funding;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- technological changes that may be more difficult or expensive than expected, or the failure or breaches of information technology security systems;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our organization, or compensation and benefit plans;
- our ability to retain key employees;

- changes in the financial condition or future prospects of issuers of securities that we own;
- changes in policy and/or assessment rates of taxing authorities that adversely affect us;
- inability of third-party providers to perform their obligations to us;
- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and its impact on the credit quality of our loans and other assets; and
- the ability of the U.S. Federal government to manage federal debt limits.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

## **General**

Our business operations are conducted through Chesapeake Bank of Maryland (the “Bank”), a federally chartered stock savings association headquartered in Baltimore County, Maryland. The Bank was founded in 1913 as New Eastern Avenue Permanent Savings and Loan Association.

CBM Bancorp, Inc. (“CBM Bancorp” or the “Company”) was incorporated on May 22, 2018 to serve as the successor holding company for the Bank. CBM Bancorp’s principal activity is the ownership of the Bank’s capital stock and the management of the offering proceeds it retained in connection with the Bank’s conversion. CBM Bancorp does not own or lease any property but instead uses the premises, equipment and other property of the Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement.

The Bank operates as a community-oriented institution by offering a variety of loan and deposit products and serving other financial needs of its local community. The Bank conducts business out of its main office located in Baltimore County, Maryland, and out of three branch offices located in Arbutus, Maryland, Bel Air, Maryland and Pasadena, Maryland. The Bank’s business strategy consists principally of attracting retail deposits from the general public in our market area, described below, and using those funds, together with funds generated from operations and borrowings, to originate loans secured by residential and nonresidential real estate. Nonresidential real estate loans, construction and land development loans and commercial loans constitute a significant percentage of the loan portfolio and, in that respect, the Bank’s lending operations are more diversified and have more risk than many traditional thrift institutions.

The Bank is subject to comprehensive regulation and examination by the Office of the Comptroller of the Currency (the “OCC”). The Bank is subject to Maryland banking laws except to the extent they are preempted by Federal law. The Bank is not regulated by the Maryland Commissioner of Financial Regulation.

## **Human Capital**

As of December 31, 2020, we employed 37 full-time employees and five part-time employees, none of whom was a party to a collective bargaining agreement. The Bank is led by an experienced core management team that encourages team members to share their talents in the communities we serve through outreach and volunteer activities.

We strive to recruit top talent and provide professional development opportunities to all team members. We seek to improve retention, development, and job satisfaction of team members by providing career skills training and a safe work environment while recognizing the unique contribution of each team member. We offer a comprehensive benefits program to our employees designed to attract, retain, and motivate team members.

We are committed and focused on the health and safety of our team members and our customers. The COVID-19 pandemic presented numerous health and safety challenges. We enacted a proactive response to the pandemic by limiting in-branch lobby traffic while encouraging team members to work remotely where possible. In addition, we provided access to recent safety standards from the Centers for Disease Control and Prevention and other local and federal agencies and implemented various health and safety protocols.

## **Available Information**

Our executive offices are located at 2001 East Joppa Road, Baltimore, Maryland 21234, and our telephone number is (410) 665-7600. Our website address is [www.chesapeakebank.com](http://www.chesapeakebank.com). Information on our website should not be considered part of this Annual Report.

## **Market Area**

The Bank currently serves the Baltimore, Maryland metropolitan area through four banking offices, with two locations in Baltimore County, one location in Anne Arundel County and one location in Harford County. The branches are located to the north and south of the city of Baltimore, with the largest marketing presence on the northern side of Baltimore County, where the main office is maintained. The immediate areas surrounding the four office locations can be categorized as suburban areas of the Baltimore metropolitan area.

The Bank defines its primary market area as the Baltimore MSA, which includes suburban and urban areas. The regional economy has evolved as employment in the manufacturing/industrialization sector has declined and the Bank's market area economy has become broadly similar to the national economy in terms of its employment in key sectors, including services employment. The Bank's market area economy is comprised of a large workforce employed in a number of employment sectors including business and professional services, healthcare, wholesale/retail trade, government, and finance/insurance/real estate. Some of the major employers in the market area include Johns Hopkins University and Hospital and Health System, and the University of Maryland Education and Health Care Systems, along with government facilities such as Fort George G. Meade, the Aberdeen Proving Ground and the United States Naval Academy.

## **Competition**

We face significant competition within our market both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including national, regional and other locally operated commercial banks, savings banks and credit unions. In many cases, these competitors seek to provide some or all of the same community-oriented services as the Bank. Recently, financial technology companies have begun to foster additional competition.

Some of our competitors offer products and services that we currently do not offer, such as trust services, private banking, insurance services and asset management. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies.

## **Lending Activities**

**General.** Our principal lending activity is originating one-to four-family residential real estate loans, including home equity loans and lines of credit. We also originate nonresidential real estate loans including multifamily loans, construction and land development loans and, to a lesser extent, commercial business loans and consumer loans. We currently sell in the secondary market a portion of the fixed-rate conforming one-to four-family residential real estate loans that we originate, generally on a servicing-released, limited or no recourse basis, while retaining jumbo loans and adjustable-rate one-to four-family residential real estate loans, in order to manage the duration and time to repricing for our loan portfolio. Subject to market conditions we intend to increase our emphasis on nonresidential real estate lending in an effort to diversify our overall loan portfolio and increase the yield earned on our loans.



**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

|                                       | December 31,      |                |                   |                |
|---------------------------------------|-------------------|----------------|-------------------|----------------|
|                                       | 2020              |                | 2019              |                |
|                                       | Amount            | Percent        | Amount            | Percent        |
|                                       | (In thousands)    |                |                   |                |
| Real estate loans:                    |                   |                |                   |                |
| One- to four-family                   | \$ 62,118         | 41.26%         | \$ 74,655         | 46.69%         |
| Home equity loans and lines of credit | 6,895             | 4.58%          | 7,488             | 4.68%          |
| Construction and land development     | 10,804            | 7.18%          | 9,261             | 5.79%          |
| Nonresidential                        | 60,210            | 39.99%         | 61,013            | 38.17%         |
| Total real estate loans               | <u>140,027</u>    | <u>93.01%</u>  | <u>152,417</u>    | <u>95.33%</u>  |
| Other loans:                          |                   |                |                   |                |
| Commercial                            | 10,198            | 6.77%          | 6,946             | 4.34%          |
| Consumer                              | 336               | 0.22%          | 523               | 0.33%          |
| Total other loans                     | <u>10,534</u>     | <u>6.99%</u>   | <u>7,469</u>      | <u>4.67%</u>   |
| Total loans                           | 150,561           | <u>100.00%</u> | 159,886           | <u>100.00%</u> |
| Net loan origination fees and costs   | (255)             |                | (262)             |                |
| Allowance for loan losses             | <u>(1,727)</u>    |                | <u>(1,379)</u>    |                |
| Total loans, net                      | <u>\$ 148,579</u> |                | <u>\$ 158,245</u> |                |

|                                       | December 31,      |                |                   |                |                   |                |
|---------------------------------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|
|                                       | 2018              |                | 2017              |                | 2016              |                |
|                                       | Amount            | Percent        | Amount            | Percent        | Amount            | Percent        |
|                                       | (In thousands)    |                |                   |                |                   |                |
| Real estate loans:                    |                   |                |                   |                |                   |                |
| One- to four-family                   | \$ 70,198         | 48.86%         | \$ 67,192         | 47.92%         | \$ 65,175         | 52.03%         |
| Home equity loans and lines of credit | 7,547             | 5.25%          | 9,540             | 6.80%          | 11,521            | 9.20%          |
| Construction and land development     | 8,232             | 5.73%          | 9,333             | 6.66%          | 10,475            | 8.36%          |
| Nonresidential                        | 51,905            | 36.14%         | 48,969            | 34.93%         | 35,754            | 28.55%         |
| Total real estate loans               | <u>137,882</u>    | <u>95.98%</u>  | <u>135,034</u>    | <u>96.31%</u>  | <u>122,925</u>    | <u>98.14%</u>  |
| Other loans:                          |                   |                |                   |                |                   |                |
| Commercial                            | 5,251             | 3.65%          | 4,604             | 3.28%          | 1,805             | 1.44%          |
| Consumer                              | 529               | 0.37%          | 577               | 0.41%          | 525               | 0.42%          |
| Total other loans                     | <u>5,780</u>      | <u>4.02%</u>   | <u>5,181</u>      | <u>3.69%</u>   | <u>2,330</u>      | <u>1.86%</u>   |
| Total loans                           | 143,662           | <u>100.00%</u> | 140,215           | <u>100.00%</u> | 125,255           | <u>100.00%</u> |
| Net loan origination fees and costs   | (154)             |                | (130)             |                | (48)              |                |
| Allowance for loan losses             | <u>(1,188)</u>    |                | <u>(1,038)</u>    |                | <u>(681)</u>      |                |
| Total loans, net                      | <u>\$ 142,320</u> |                | <u>\$ 139,047</u> |                | <u>\$ 124,526</u> |                |

**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2020. Demand loans, having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

|                                       | <b>December 31, 2020</b>      |  |  |                       |
|---------------------------------------|-------------------------------|--|--|-----------------------|
|                                       | <b>One-to<br/>Four-Family</b> | <b>Home Equity<br/>Loans and<br/>Lines of Credit</b> | <b>Construction<br/>and Land<br/>Development</b> | <b>Nonresidential</b> |
| <b>Amounts due in:</b>                | <b>(In thousands)</b>         |  |  |                       |
| One year or less                      | \$ 854                        | \$ 10  | \$ 6,028   | \$ 2,975              |
| After one year through two years      | 176                           | 181  | 1,968  | 2,816                 |
| After two years through three years   | 481                           | 23   | 1,406  | 7,395                 |
| After three years through five years  | 2,743                         | 208  | 1,295  | 6,415                 |
| After five years through ten years    | 4,985                         | 1,085  | 107  | 29,001                |
| After ten years through fifteen years | 7,389                         | 3,081  | -  | 7,127                 |
| After fifteen years                   | <u>45,490</u>                 | <u>2,307</u>   | <u>-</u>   | <u>4,481</u>          |
| Total                                 | <u>\$ 62,118</u>              | <u>\$ 6,895</u>                                      | <u>\$ 10,804</u>                                 | <u>\$ 60,210</u>      |
|                                       | <b>Commercial</b>             | <b>Consumer</b>                                      | <b>Total</b>                                     |                       |
| <b>Amounts due in:</b>                | <b>(In thousands)</b>         |  |  |                       |
| One year or less                      | \$ 242                        | \$ 20  | \$ 10,129  |                       |
| After one year through two years      | 4,482                         | 56   | 9,679  |                       |
| After two years through three years   | 93                            | 73   | 9,471  |                       |
| After three years through five years  | 832                           | 177  | 11,670   |                       |
| After five years through ten years    | 3,280                         | 10   | 38,468   |                       |
| After ten years through fifteen years | 1,269                         | -  | 18,866   |                       |
| After fifteen years                   | <u>-</u>                      | <u>-</u>   | <u>52,278</u>                                    |                       |
| Total                                 | <u>\$ 10,198</u>              | <u>\$ 336</u>  | <u>\$ 150,561</u>                                |                       |

The following table sets forth our fixed and adjustable-rate loans at December 31, 2020 that are contractually due after December 31, 2021.

|                                       | <b>Due After December 31, 2021</b> |                             |                   |
|---------------------------------------|------------------------------------|-----------------------------|-------------------|
|                                       | <b>Fixed<br/>Rates</b>             | <b>Adjustable<br/>Rates</b> | <b>Total</b>      |
|                                       | <b>(In thousands)</b>              |                             |                   |
| Real estate loans:                    |                                    |                             |                   |
| One- to four-family                   | \$ 58,711                          | \$ 2,553                    | \$ 61,264         |
| Home equity loans and lines of credit | 544                                | 6,341                       | 6,885             |
| Construction and land development     | 4,336                              | 440                         | 4,776             |
| Nonresidential                        | 41,484                             | 15,751                      | 57,235            |
| Other loans:                          |                                    |                             |                   |
| Commercial                            | 9,944                              | 12                          | 9,956             |
| Consumer                              | <u>296</u>                         | <u>20</u>                   | <u>316</u>        |
| Total loans                           | <u>\$ 115,315</u>                  | <u>\$ 25,117</u>            | <u>\$ 140,432</u> |

***One- to Four-Family Residential Real Estate.*** Our one- to four-family residential real estate portfolio consists of residential mortgage loans that enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. A portion of our one- to four-family residential real estate lending activity consists of the origination of first mortgage loans secured by one- to four-family non-owner occupied residential properties. Our one- to four-family residential real estate portfolio also includes construction loans to individuals that convert to a permanent mortgage at the end of the construction phase. At December 31, 2020, we had \$62.1 million of loans secured by one- to four-family residential real estate, representing 41.26% of our total loan portfolio, of which \$10.1 million, or 16.43%, were secured by one- to four-family non-owner occupied residential real estate. Of the \$62.1 million in loans secured by one- to four-family residential real estate, \$4.0 million, or 6.44%, were construction permanent loans. In addition, at December 31, 2020, we had \$6.1 million of one- to four-family residential mortgages held for sale. We primarily originate fixed-rate one- to four-family residential real estate loans, but depending on market conditions and borrower preferences, we also offer adjustable-rate loans. At December 31, 2020, 95.36% of our one- to four-family residential real estate loans were fixed-rate loans, and 4.64% of such loans were adjustable-rate loans.

Our fixed-rate one- to four-family residential real estate loans typically have terms of 10 to 30 years and are generally underwritten according to FNMA (Federal National Mortgage Association) or FHLMC (Federal Home Loan Mortgage Corporation) guidelines when the loan balance meets such guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate both fixed and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits, which as of December 31, 2020 was generally \$520,950 for single-family homes in our market area. We typically sell a portion of our fixed-rate conforming loans on a servicing-released basis. We also originate loans above the lending limit for conforming loans, which are referred to as “jumbo loans,” that we retain in our portfolio. Jumbo loans that we originate typically have 10 to 30 years terms and maximum loan-to-value ratios of 80%. We also offer FHA and VA loans, all of which we originate for sale on a servicing-released, non-recourse basis in accordance with FHA and VA guidelines.

We generally limit the loan-to-value ratios of our mortgage loans without private mortgage insurance to 80% of the sales price or appraised value, whichever is lower. Loans where the borrower obtains private mortgage insurance may be made with loan-to-value ratios up to 97%.

Our adjustable-rate one-to four-family residential real estate loans carry terms to maturity ranging from 10 to 30 years and generally have fixed rates for initial terms of three, five or seven years, and adjust annually thereafter at a margin, which in recent years has been tied to a Treasury index. The maximum amount by which the interest rate may be increased over the life of the loan is generally 5% over the initial interest rate of the loan. We typically hold in the portfolio our adjustable-rate one-to four-family residential real estate loans.

Construction permanent loans are made on the same general terms as our one-to four-family residential real estate loans, but provide for the payment of interest only during the construction phase, which is usually up to twelve months. At the end of the construction phase, the loan converts to a permanent mortgage loan. Prior to making a commitment to fund a construction loan, we require an appraisal of the property by an independent appraiser. We also review and inspect each project prior to disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection of the project based on percentage of completion.

We offer on a limited basis one- to four-family residential real estate loans secured by non-owner occupied properties. Generally, we require personal guarantees from the borrowers on these properties, and we generally do not make loans in excess of 75% loan to value on non-owner occupied properties.

We generally do not offer “interest only” mortgage loans on one- to four-family residential properties. We do not offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. Additionally, we do not offer “subprime loans” (loans that are made with low down-payments to borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgements, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (defined as loans having less than full documentation).

***Home Equity Loans and Lines of Credit.*** We offer home equity loans and lines of credit, both of which are secured by either first mortgages or second mortgages on one- to four-family residences. At December 31, 2020, outstanding home equity loans and lines of credit totaled \$6.9 million, or 4.58% of total loans outstanding.

The underwriting standards utilized for home equity loans and lines of credit include a title review, the recordation of a lien, a determination of the applicant’s ability to satisfy existing debt obligations and payments on the proposed loan, and the value of the collateral securing the loan. The loan-to-value ratios for our home equity loans and our home equity lines of credit are generally limited to 75% when combined with the first security lien, if applicable. Home equity loans are offered with

fixed rates of interest and terms up to 20 years. At December 31, 2020, home equity loans totaled \$1.6 million. Our home equity lines of credit generally have 20-year terms and adjustable rates of interest, subject to a contractual floor, which are indexed to the prime rate. At December 31, 2020, home equity lines of credit totaled \$5.3 million.

**Construction and Land Development.** We originate construction loans to local developers and contractors to finance the construction of one- to four-family residential properties, and nonresidential real estate and multi-family properties. We also make a limited amount of land loans to complement our construction lending activities, as such loans are generally secured by lots that will be used for residential construction for the purchase of developed lots and the construction of single-family residences. Land loans also include loans secured by land purchased for investment purposes. At December 31, 2020, our construction and land development loans total \$10.8 million, representing 7.18% of our total loan portfolio, and included \$4.1 million of land loans.

Most of our construction loans are interest-only loans that provide for the payment of interest during the construction phase. At the end of the construction phase, the loan may convert to a permanent mortgage or the loan may be payable in full. Loans generally can be made with a maximum loan-to-value ratio for one- to four-family residential construction of 80% of the appraised market value upon completion of the project and with a maximum loan-to-value ratio for nonresidential and multifamily construction of 75% of the appraised market value upon completion of the project. Loans for raw land generally have a maximum loan-to-value of 65% and loans for land development or improved lots have a maximum loan-to-value of 75%. Before making a commitment to fund a construction and land development loan, we generally require an appraisal of the property by an independent licensed appraiser. We also generally require an inspection of the property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed periodically in increments as construction progresses and as inspection by our approved inspectors warrant.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment. Construction loans also expose us to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties. In addition, many of these borrowers have more than one outstanding loan, so an adverse development with respect to one loan or credit relationship can expose us to significantly greater risk of non-payment and loss.

**Nonresidential Real Estate.** We offer nonresidential mortgage loans secured by nonresidential real estate, such as retail and office buildings, as well as loans secured by multi-family properties. Our nonresidential real estate portfolio also includes construction loans that convert to permanent mortgages at the end of the construction phase. At December 31, 2020, we had \$60.2 million in nonresidential mortgages, representing 39.99% of our total loan portfolio and included \$7.9 million of multifamily loans and \$1.1 million in construction permanent loans. Excluding multifamily loans and construction permanent loans, \$14.2 million of our nonresidential real estate portfolio was owner-occupied real estate and \$37.0 million was secured by income producing, or non-owner occupied real estate.

We originate a variety of fixed and adjustable-rate nonresidential real estate loans with terms generally up to 10 years and amortization periods generally up to 25 years, which may include balloon loans. Interest rates and payments on our adjustable-rate loans are generally indexed to the prime rate, plus a margin. Construction permanent loans are made on the same general terms as nonresidential real estate loans, but provide for the payment of interest only during the construction phase, which is usually up to twelve months. At the end of the construction phase, the loan converts to a permanent mortgage loan.

We consider a number of factors in originating nonresidential real estate loans. We evaluate the qualifications and financial condition of the borrower, including project-level and global cash flows, credit history, and management expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower and the borrower's experience in owning or managing similar properties. Nonresidential owner-occupied real estate loans are generally originated in amounts up to 80% of the appraised value or the purchase price of the property securing the loan, whichever is lower. Nonresidential non-owner occupied and multifamily loans are generally originated in amounts up to 75% of the appraised value or the purchase price of the property securing the loan, whichever is lower. When circumstances warrant, guarantees are obtained from commercial real estate customers. In addition, the borrower's and guarantor's financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates.

Nonresidential real estate loans entail greater risks compared to one- to four-family residential real estate loans because they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income for the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for nonresidential real estate than residential properties.

**Commercial.** We originate commercial term loans and lines of credit to a variety of small and medium sized businesses in our market area. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. We also originate Small Business Administration (“SBA”) guaranteed loans under a new loan program called the Paycheck Protection Program (“PPP”). At December 31, 2020, commercial loans were \$10.2 million, or 6.77% of our total loan portfolio. Included in the commercial loans were \$4.5 million in PPP loans, or 44.12% of the commercial loan portfolio.

The commercial loans we offer include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either fixed or variable rates of interest. Variable rates are based on the prime rate, plus a margin. Commercial loans typically have shorter terms to maturity and higher interest rates than nonresidential real estate loans, but may involve more credit risk because of the type and nature of the collateral. When making commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment.

PPP loans are 100% guaranteed by the SBA and are eligible for full or partial forgiveness. The principal amount of the borrower’s PPP loan, including accrued interest, is eligible to be reduced by the loan forgiveness amount so long as employee and compensation levels of the business entity are maintained and the loan proceeds are used for payroll and qualifying expenses.

**Consumer.** We offer a limited range of consumer loans, principally to customers residing in our primary market area with other relationships with us and with acceptable credit ratings. Our consumer loans generally consist of loans secured by deposit accounts, loans on new and used automobiles and unsecured personal loans. At December 31, 2020, consumer loans were \$336,000, or 0.22% of our total loan portfolio.

**Loan Originations, Participations, Purchases and Sales.** Loan originations are generated by our loan personnel and from referrals from existing customers and real estate brokers. All loans we originate are underwritten pursuant to our policies and procedures. While we originate both fixed and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and pricing levels established by competing banks, credit unions and mortgage banking companies. Our volume of loan originations is influenced significantly by market interest rates, and accordingly, the volume of our loan originations can vary from period to period.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a significant portion of our fixed-rate conforming one-to four-family residential mortgage loans that we have originated. We consider our balance sheet as well as market conditions on an ongoing basis in making decisions as to whether to hold loans we originate for investment or to sell such loans to investors, choosing the strategy that is most advantageous to us from a profitability and risk management standpoint.

From time to time, we may purchase participation interests in loans. We underwrite our participation interest in the loan that we are purchasing according to our own underwriting criteria and procedures. We also have sold portions of loans that exceeded our loans-to-one borrower legal lending limit and for risk diversification. In addition, we sometimes purchase whole loans from third parties to supplement our loan production. These loans generally consist of loans secured by one-to four-family residential real estate.

The following table shows our loan originations, participations, purchases, sales and repayment activities for the periods indicated, including loans held for sale.

|  | <b>Year Ended December 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2020</b>                    | <b>2019</b> |
|  | <b>(In thousands)</b>          |             |
| Total loans at beginning of year:                | \$ 159,886                     | \$ 143,662  |
| <b>Loans originated:</b>                         |                                |             |
| Real estate loans:                               |                                |             |
| One-to four-family                               | 54,124                         | 28,741      |
| Home equity loans and lines of credit            | 103                            | 1,286       |
| Construction and land development                | 6,094                          | 3,017       |
| Nonresidential                                   | 8,033                          | 19,037      |
| Other loans:                                     |                                |             |
| Commercial                                       | 8,989                          | 2,660       |
| Consumer   | 56                             | 424         |
| Total loans originated:                          | 77,399                         | 55,165      |
| <b>Loan sales and loan principal repayments:</b> |                                |             |
| Loan sales: One-to four-family                   | (37,303)                       | (8,867)     |
| Principal repayments                             | (49,421)                       | (30,074)    |
| Net loan activity                                | (9,325)                        | 16,224      |
| Total loans at end of year                       | \$ 150,561                     | \$ 159,886  |

**Loans to One Borrower.** Pursuant to applicable law, the aggregate amount of loans that we are permitted to make to any one borrower or group of related borrowers is generally limited to 15% of the Bank's unimpaired capital and surplus (25% if the amount in excess of 15% is secured by "readily marketable collateral.") This 15% of unimpaired capital and surplus was approximately \$6.8 million as of December 31, 2020. At December 31, 2020 our largest credit relationship totaled \$5.7 million, consisting of three nonresidential loans secured by income-producing commercial real estate.

**Loan Approval Procedures and Authority.** Our lending is subject to written policies, underwriting standards and operating procedures. Decisions on the loan applications are made on the basis of detailed applications submitted by the prospective borrower, credit histories that we obtain and property valuations, consistent with our appraisal policy. The appraisals are prepared by outside independent licensed appraisers approved by the board of directors. To assess the borrower's ability to repay, we review the borrower's income and expenses and employment and credit history. In the case of nonresidential real estate loans, we also review projected income, expenses and the viability of the project being financed. When applicable, rent rolls, leases and contingent liabilities are received. The Board of Directors establishes and approves the members of the Loan Committee, our loan policies as well as our lending limits. The Board of Directors has granted loan approval authority to certain senior officers up to prescribed limits not exceeding \$500,000 depending on the officer's experience and loan type. Generally, loans in excess of \$500,000 but not greater than \$750,000 require approval of both our Chief Credit Officer and the Chief Lending Officer. Loans in excess of \$750,000 but not greater than \$1.5 million require approval of the Management Loan Committee. Loans in excess of \$1.5 million require approval of the Board Loan Committee. Any loan that involves an exception to loan policy must be authorized by the next higher level of loan authority. Exceptions to loan policy are reported to the Board of Directors quarterly.

### **Delinquencies and Asset Quality**

**Delinquency Procedures.** When a loan payment becomes 16 days past due, we contact the customer by mailing a late notice, and loan officers may contact their customers. If a loan payment becomes 30 days past due, we mail an additional late notice and a loan-specific letter written by a collection representative, and we also place telephone calls to the borrower. These loan collection efforts continue until a loan becomes 90 days past due, at which point we would refer the loan for foreclosure proceedings unless management determines that it is in the best interest of the Bank to work further with the borrower to arrange a workout plan. A summary report of all loans 30 days or more past due is provided to the board of directors each month.

**Loans Past Due and Non-Performing Assets.** Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan losses is based on the present value of the expected future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Non-accrual

loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received on a cash basis or cost recovery method.

When we acquire real estate as a result of foreclosure, the real estate is classified as foreclosed real estate. Foreclosed real estate is recorded at the lower of carrying amount or fair value, less estimated costs to sell. Prior to acquisition, we generally order a new appraisal to determine the current market value of the property. Any excess of the recorded value of the loan satisfied over the market value of the property is charged against the allowance for loan losses, or, if the existing allowance is inadequate, charged to expenses of the current period. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the new cost basis or fair value less estimated selling costs. After acquisition, all costs incurred to maintain the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

A loan is classified as a troubled debt restructuring if, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider. This usually includes a modification of loan terms, such as reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months.

**Delinquent Loans.** The following tables set forth our loan delinquencies, including non-accrual loans, by type and amount at the dates indicated.

|  | December 31,              |                           |                                |                           |                           |                                |
|--|---------------------------|---------------------------|--------------------------------|---------------------------|---------------------------|--------------------------------|
|  | 2020                      |                           |                                | 2019                      |                           |                                |
|  | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due |
|  | (In thousands)            |                           |                                |                           |                           |                                |
| Real estate loans:                       |                           |                           |                                |                           |                           |                                |
| One-to four-family                       | \$ 9                      | \$ -                      | \$ 188                         | \$ 220                    | \$ -                      | \$ 338                         |
| Home equity loans and<br>lines of credit | -                         | -                         | -                              | 169                       | -                         | 76                             |
| Construction and land<br>development     | -                         | -                         | -                              | -                         | -                         | 76                             |
| Nonresidential                           | -                         | -                         | -                              | -                         | -                         | -                              |
| Other loans:                             |                           |                           |                                |                           |                           |                                |
| Commercial                               | -                         | -                         | -                              | 32                        | -                         | -                              |
| Consumer                                 | -                         | -                         | -                              | 25                        | -                         | -                              |
| Total                                    | \$ 9                      | \$ -                      | \$ 188                         | \$ 446                    | \$ -                      | \$ 490                         |

|  | December 31,              |                           |                                |                           |                           |                                |                           |                           |                                |
|--|---------------------------|---------------------------|--------------------------------|---------------------------|---------------------------|--------------------------------|---------------------------|---------------------------|--------------------------------|
|  | 2018                      |                           |                                | 2017                      |                           |                                | 2016                      |                           |                                |
|  | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90 Days<br>or More<br>Past Due |
|  | (In thousands)            |                           |                                |                           |                           |                                |                           |                           |                                |
| Real estate loans:                       |                           |                           |                                |                           |                           |                                |                           |                           |                                |
| One-to four-family                       | \$ 101                    | \$ 158                    | \$ 344                         | \$ 9                      | \$ -                      | \$ 706                         | \$ 166                    | \$ -                      | \$ 106                         |
| Home equity loans and<br>lines of credit | 36                        | -                         | 48                             | 12                        | 104                       | -                              | 32                        | -                         | -                              |
| Construction and land<br>development     | 87                        | -                         | -                              | -                         | -                         | 123                            | -                         | -                         | -                              |
| Nonresidential                           | -                         | -                         | 484                            | 1,023                     | -                         | -                              | -                         | -                         | -                              |
| Other loans:                             |                           |                           |                                |                           |                           |                                |                           |                           |                                |
| Commercial                               | -                         | -                         | -                              | -                         | -                         | -                              | -                         | -                         | -                              |
| Consumer                                 | -                         | -                         | -                              | 1                         | -                         | -                              | 2                         | -                         | -                              |
| Total                                    | \$ 224                    | \$ 158                    | \$ 876                         | \$ 1,045                  | \$ 104                    | \$ 829                         | \$ 200                    | \$ -                      | \$ 106                         |

**Non-Performing Assets.** The following table sets forth information regarding our non-performing assets. Non-accrual loans include non-accruing troubled debt restructurings of \$91,000, \$0, \$120,000, \$230,000 and \$0 at December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

|   | <b>December 31,</b>   |                 |                 |                 |                 |
|---|-----------------------|-----------------|-----------------|-----------------|-----------------|
|   | <b>2020</b>           | <b>2019</b>     | <b>2018</b>     | <b>2017</b>     | <b>2016</b>     |
|   | <b>(In thousands)</b> |                 |                 |                 |                 |
| <b>Non-accrual loans</b>  |                       |                 |                 |                 |                 |
| Real estate loans:  |                       |                 |                 |                 |                 |
| One- to four-family   | \$ 188                | \$ 338          | \$ 585          | \$ 168          | \$ 168          |
| Home equity loans and lines of credit   | -                     | 76              | 85              | 49              | -               |
| Construction and land development   | -                     | 76              | 87              | 123             | -               |
| Nonresidential  | -                     | -               | 484             | -               | -               |
| Other loans:  |                       |                 |                 |                 |                 |
| Commercial  | -                     | -               | -               | -               | -               |
| Consumer  | -                     | -               | -               | -               | -               |
| Total non-accrual loans   | <u>188</u>            | <u>490</u>      | <u>1,241</u>    | <u>878</u>      | <u>168</u>      |
| Foreclosed real estate  | <u>-</u>              | <u>845</u>      | <u>865</u>      | <u>865</u>      | <u>1,440</u>    |
| Total non-performing assets   | <u>\$ 963</u>         | <u>\$ 1,335</u> | <u>\$ 2,106</u> | <u>\$ 1,743</u> | <u>\$ 1,608</u> |
| <b>Accruing troubled debt restructured loans</b>  |                       |                 |                 |                 |                 |
| Real estate loans:  |                       |                 |                 |                 |                 |
| One- to four-family   | \$ -                  | \$ -            | \$ -            | \$ -            | \$ 341          |
| Home equity loans and lines of credit   | 36                    | 40              | 46              | -               | 18              |
| Construction and land development   | -                     | -               | -               | -               | -               |
| Nonresidential  | -                     | -               | -               | -               | -               |
| Other loans:  |                       |                 |                 |                 |                 |
| Commercial  | -                     | -               | -               | -               | -               |
| Consumer  | -                     | -               | -               | -               | -               |
| Total accruing troubled debt restricted loans   | <u>36</u>             | <u>40</u>       | <u>46</u>       | <u>-</u>        | <u>359</u>      |
| Total non-performing assets and accruing troubled debt restructured loans and total non-performing assets | <u>\$ 999</u>         | <u>\$ 1,375</u> | <u>\$ 2,152</u> | <u>\$ 1,743</u> | <u>\$ 1,967</u> |
| Total non-performing loans to total loans   | 0.12%                 | 0.31%           | 0.86%           | 0.63%           | 0.13%           |
| Total non-performing assets to total assets   | 0.41%                 | 0.61%           | 0.98%           | 0.98%           | 0.92%           |
| Total non-performing assets and accruing troubled debt restructured loans to total assets                 | 0.43%                 | 0.62%           | 1.00%           | 0.98%           | 1.13%           |

Interest income that would have been recorded for the years ended December 31, 2020 and 2019 had non-accruing loans been current according to their original terms amounted to \$9,000 and \$18,000, respectively. We recognized \$6,000 and \$15,000 of interest income for these loans for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, there were no loans not disclosed in the above table, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms.

**Classified Assets.** Federal regulations provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose the insured institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.



When assets are classified as either substandard or doubtful, it may establish a portion of the related general loss allowances to such assets as it deems prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as loss, it is required to either establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the Office of the Comptroller of the Currency and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations.

On the basis of this review of our assets, our classified and special mention assets, which includes foreclosed real estate, at the dates indicated were as follows:

|                         | <b>December 31,</b> |                 |                       |                 |                 |
|-------------------------|---------------------|-----------------|-----------------------|-----------------|-----------------|
|                         | <b>2020</b>         | <b>2019</b>     | <b>2018</b>           | <b>2017</b>     | <b>2016</b>     |
|                         |                     |                 | <b>(In thousands)</b> |                 |                 |
| Substandard assets      | \$ 963              | \$ 3,633        | \$ 2,106              | \$ 2,305        | \$ 4,297        |
| Doubtful assets         | -                   | -               | -                     | -               | -               |
| Loss assets             | -                   | -               | -                     | -               | -               |
| Total classified assets | <u>\$ 963</u>       | <u>\$ 3,633</u> | <u>\$ 2,106</u>       | <u>\$ 2,305</u> | <u>\$ 4,297</u> |
| Special mention assets  | <u>\$ 1,671</u>     | <u>\$ 461</u>   | <u>\$ 2,546</u>       | <u>\$ 972</u>   | <u>\$ 438</u>   |

#### **Allowance for Loan Losses**

**Analysis and Determination of the Allowance for Loan Losses.** The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on various factors, including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss or loan pools, the fair value of the underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. As an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning for the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results.

We continue to monitor and modify our allowance for loan losses as conditions dictate. No assurances can be given that the level of allowance for loan losses will cover all of the inherent losses on the loans or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

|   | Years Ended December 31, |          |          |          |         |
|---|--------------------------|----------|----------|----------|---------|
|   | 2020                     | 2019     | 2018     | 2017     | 2016    |
|   | (In thousands)           |          |          |          |         |
| Allowance at the beginning of the year                    | \$ 1,379                 | \$ 1,188 | \$ 1,038 | \$ 681   | \$ 803  |
| Charge-offs:  |                          |          |          |          |         |
| Real estate loans:  |                          |          |          |          |         |
| One- to four-family                                       | -                        | 90       | 88       | 19       | 8       |
| Home equity loans and lines of credit                     | -                        | -        | 12       | -        | 18      |
| Construction and land development                         | -                        | 11       | -        | 657      | -       |
| Nonresidential  | -                        | -        | 335      | -        | 35      |
| Other loans:  |                          |          |          |          |         |
| Commercial  | -                        | -        | -        | -        | -       |
| Consumer  | 4                        | -        | 6        | 2        | 1       |
| Total charge-offs   | 4                        | 101      | 441      | 678      | 62      |
| Recoveries:   |                          |          |          |          |         |
| Real estate loans:  |                          |          |          |          |         |
| One- to four-family                                       | -                        | -        | 8        | 6        | -       |
| Home equity loans and lines of credit                     | 2                        | 2        | -        | -        | 1       |
| Construction and land development                         | -                        | -        | 8        | -        | -       |
| Nonresidential  | -                        | 115      | -        | -        | -       |
| Other loans:  |                          |          |          |          |         |
| Commercial  | -                        | -        | -        | -        | -       |
| Consumer  | -                        | -        | -        | 4        | 1       |
| Total recoveries  | 2                        | 117      | 16       | 10       | 2       |
| Net charge-offs (recoveries)                              | 2                        | (16)     | 425      | 668      | 60      |
| Provision for (reversal of) loan losses                   | 350                      | 175      | 575      | 1,025    | (62)    |
| Allowance for loan losses to end of period                | \$ 1,727                 | \$ 1,379 | \$ 1,188 | \$ 1,038 | \$ 681  |
| Ratios:   |                          |          |          |          |         |
| Net charge-offs (recoveries) to average loans outstanding | *%                       | (0.01)%  | 0.30%    | 0.48%    | 0.05%   |
| Allowance for loan losses to non-performing loans         | 918.62%                  | 281.43%  | 95.73%   | 118.22%  | 405.36% |
| Allowance for loan losses to total loans                  | 1.15%                    | 0.86%    | 0.83%    | 0.74%    | 0.54%   |
| *not material   |                          |          |          |          |         |

**Allocation of Allowance for Loan Losses.** The following table sets forth the allowance for loan losses allocated by loan category and the percent of the allowance in each category to the total allocated allowance at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

|  | December 31,                 |  |   |                              |  |   |
|--|------------------------------|--|---|------------------------------|--|---|
|  | 2020                         |  |   | 2019                         |  |   |
|  | Allowance for<br>Loan Losses | Percent of<br>Allowance in<br>Each<br>Category<br>to Total<br>Allocated<br>Allowance | Percent of<br>Loans in<br>Each<br>Category to<br>Total<br>Loans | Allowance for<br>Loan Losses | Percent of<br>Allowance in<br>Each<br>Category<br>to Total<br>Allocated<br>Allowance | Percent of<br>Loans in<br>Each<br>Category to<br>Total<br>Loans |
|  | (Dollars in thousands)       |  |   |                              |  |   |
| Real estate loans:                       |                              |  |   |                              |  |   |
| One- to four family                      | \$ 340                       | 19.69%   | 41.26%  | \$ 332                       | 24.08%   | 46.69%  |
| Home equity loans and<br>lines of credit | 64                           | 3.71%  | 4.58%   | 63                           | 4.57%  | 4.68%   |
| Construction and land<br>development     | 206                          | 11.93%   | 7.18%   | 179                          | 12.98%   | 5.79%   |
| Nonresidential                           | 1,044                        | 60.44%   | 39.99%  | 683                          | 49.52%   | 38.17%  |
| Other loans:                             |                              |  |   |                              |  |   |
| Commercial                               | 68                           | 3.94%  | 6.77%   | 56                           | 4.06%  | 4.34%   |
| Consumer                                 | 5                            | 0.29%  | 0.22%   | 7                            | 0.51%  | 0.33%   |
| Total allocated allowance                | 1,727                        | 100.00%  | 100.00%   | 1,320                        | 95.72%   | 100.00%   |
| Unallocated                              | -                            | -  | -   | 59                           | 4.28%  | -   |
| Total                                    | \$ 1,727                     | 100.00%  | 100.00%   | \$ 1,379                     | 100.00%  | 100.00%   |

|  | At December 31,                 |  |   |                                 |  |   |                                 |  |   |
|--|---------------------------------|--|---|---------------------------------|--|---|---------------------------------|--|---|
|  | 2018                            |  |   | 2017                            |  |   | 2016                            |  |   |
|  | Allowance<br>for Loan<br>Losses | Percent of<br>Allowance<br>in Each<br>Category<br>to Total<br>Allocated<br>Allowance | Percent of<br>Loans in<br>Each<br>Category<br>to Total<br>Loans | Allowance<br>for Loan<br>Losses | Percent of<br>Allowance<br>in Each<br>Category<br>to Total<br>Allocated<br>Allowance | Percent of<br>Loans in<br>Each<br>Category<br>to Total<br>Loans | Allowance<br>for Loan<br>Losses | Percent of<br>Allowance<br>in Each<br>Category<br>to Total<br>Allocated<br>Allowance | Percent of<br>Loans in<br>Each<br>Category<br>to Total<br>Loans |
|  | (Dollars in thousands)          |  |   |                                 |  |   |                                 |  |   |
| Real estate loans:                       |                                 |  |   |                                 |  |   |                                 |  |   |
| One- to four family                      | \$ 245                          | 20.62%   | 48.86%  | \$ 238                          | 22.93%   | 47.92%  | \$ 74                           | 10.87%   | 52.03%  |
| Home equity loans<br>and lines of credit | 69                              | 5.81%  | 5.25%   | 83                              | 8.00%  | 6.80%   | 91                              | 13.36%   | 9.20%   |
| Construction and<br>land development     | 185                             | 15.57%   | 5.73%   | 173                             | 16.67%   | 6.66%   | 309                             | 45.37%   | 8.36%   |
| Nonresidential                           | 626                             | 52.70%   | 36.14%  | 447                             | 43.06%   | 34.93%  | 100                             | 14.68%   | 28.55%  |
| Other loans:                             |                                 |  |   |                                 |  |   |                                 |  |   |
| Commercial                               | 29                              | 2.44%  | 3.65%   | 44                              | 4.24%  | 3.28%   | 55                              | 8.08%  | 1.44%   |
| Consumer                                 | 7                               | 0.59%  | 0.37%   | 16                              | 1.54%  | 0.41%   | 13                              | 1.91%  | 0.42%   |
| Total allocated<br>allowance             | 1,161                           | 97.73%   | 100.00%   | 1,001                           | 96.44%   | 100.00%   | 642                             | 94.27%   | 100.00%   |
| Unallocated                              | 27                              | 2.27%  | -   | 37                              | 3.56%  | -   | 39                              | 5.73%  | -   |
| Total                                    | \$ 1,188                        | 100.00%  | 100.00%   | \$ 1,038                        | 100.00%  | 100.00%   | \$ 681                          | 100.00%  | 100.00%   |

At December 31, 2020, our allowance for loan losses represented 1.15% of total loans and 918.62% of nonperforming loans. The allowance for loan losses increased to \$1.7 million at December 31, 2020 from \$1.4 million at December 31, 2019. Due to uncertainty of economic conditions from the COVID-19 pandemic, the Company increased the qualitative factors in

the calculation of the allowance for loan losses and due to the uncertainty of the COVID-19 impact, the Company will continue to monitor and additional adjustments to the allowance for loan losses may be necessary.

There were \$2,000 in net loan charge-offs for the year ended December 31, 2020 and \$16,000 in net loan recoveries for the year ended December 31, 2019. The difference in net charge-offs during the year ended December 31, 2020 compared to net recoveries for the year ended December 31, 2019 was primarily attributed to a charge-off during December 31, 2019 of \$90,000 on a one-to four-family residential loan for which we have no additional exposure offset by a recovery during December 31, 2019 in the amount of \$115,000.

### Investment Activities

**General.** Our investment policy is established and reviewed annually by the board of directors. We are permitted under federal law to invest in various types of liquid assets, including United States Government obligations, securities of various federal agencies and of state and municipal governments, mortgage-backed securities, time deposits of federally insured institutions, certain bankers' acceptances and federal funds.

Our investment objectives are to maintain high asset quality, to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. The board of directors has the overall responsibility for the investment portfolio, including approval of our investment policy. The board of directors is also responsible for implementation of the investment policy and monitoring investment performance. The board of directors reviews the status of the investment portfolio on a quarterly basis, or more frequently if warranted.

Generally accepted accounting principles require that, at the time of purchase, we designate a security as held to maturity, available for sale, or trading, depending on our ability and intent to hold such security. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. We do not maintain a trading portfolio. Establishing a trading portfolio would require specific authorization by the board of directors.

**Securities Portfolio Composition.** The following table sets forth the amortized cost and estimated fair value of our available for sale and held to maturity securities at the dates indicated.

|  | December 31,      |                  |                   |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | 2020              |                  | 2019              |                  |
|  | Amortized<br>Cost | Fair<br>Value    | Amortized<br>Cost | Fair<br>Value    |
|  | (In thousands)    |                  |                   |                  |
| <b>Securities available for sale:</b>          |                   |                  |                   |                  |
| U.S. Government and Federal Agency obligations | \$ 2,500          | \$ 2,554         | \$ 9,472          | \$ 9,544         |
| Residential mortgage-backed securities         | 13,117            | 13,990           | 25,416            | 26,011           |
| Municipal securities                           | -                 | -                | 1,505             | 1,536            |
| Total securities available for sale            | <u>\$ 15,617</u>  | <u>\$ 16,544</u> | <u>\$ 36,393</u>  | <u>\$ 37,091</u> |

  

|  | At December 31,   |                  |                   |                 |                   |                 |
|--|-------------------|------------------|-------------------|-----------------|-------------------|-----------------|
|  | 2018              |                  | 2017              |                 | 2016              |                 |
|  | Amortized<br>Cost | Fair<br>Value    | Amortized<br>Cost | Fair<br>Value   | Amortized<br>Cost | Fair<br>Value   |
|  | (In thousands)    |                  |                   |                 |                   |                 |
| <b>Securities available for sale:</b>          |                   |                  |                   |                 |                   |                 |
| U.S. Government and Federal Agency obligations | \$ 18,264         | \$ 18,220        | \$ 5,499          | \$ 5,424        | \$ 4,000          | \$ 3,918        |
| Residential mortgage-backed securities         | 17,638            | 17,745           | -                 | -               | -                 | -               |
| Municipal securities                           | 1,506             | 1,482            | 1,507             | 1,500           | -                 | -               |
| Total securities available for sale            | <u>\$ 37,408</u>  | <u>\$ 37,447</u> | <u>\$ 7,006</u>   | <u>\$ 6,924</u> | <u>\$ 4,000</u>   | <u>\$ 3,918</u> |
| <b>Securities held to maturity:</b>            |                   |                  |                   |                 |                   |                 |
| Residential mortgage-backed securities         | \$ -              | \$ -             | \$ 3,323          | \$ 3,507        | \$ 4,321          | \$ 4,579        |
| Total securities held to maturity              | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ 3,323</u>   | <u>\$ 3,507</u> | <u>\$ 4,321</u>   | <u>\$ 4,579</u> |

At December 31, 2020, all of our securities were classified as available for sale, which is carried at fair value, totaling \$16.5 million, or 7.03% of total assets. We also held \$46.8 million in interest-bearing deposits at other banks, \$6.5 million in time deposits in other banks and \$411,000 of stock in the Federal Home Loan Bank of Atlanta at December 31, 2020.

**United States Government and Federal Agency Obligations.** While United States Government and Federal Agency obligations generally provide lower yields than other investments in the securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes, as collateral for borrowings and as an interest rate risk hedge in the event of significant mortgage loan prepayments. At December 31, 2020, U.S. Government and Federal Agency obligations consisted of fixed-rate Treasury securities, and fixed-rate Federal Home Loan Bank, Farm Credit Bank and Fannie Mae securities. At December 31, 2020, the fair value of our United States Government and Federal Agency obligations totaled \$2.6 million.

**Residential Mortgage-Backed Securities.** We invest in residential mortgage-backed securities insured or guaranteed by Ginnie Mae, Freddie Mac or Fannie Mae. We have not purchased privately-issued mortgage-backed securities. We invest in residential mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Ginnie Mae, Freddie Mac or Fannie Mae.

Investments in residential mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates. At December 31, 2020, the fair value of our residential mortgage-backed securities totaled \$14.0 million.

**Municipal Securities.** We had invested in municipal securities which have a higher yield than U.S. Government and Federal Agency obligations in order to improve the yield of the securities portfolio. Municipal securities generally involve more credit risk than U.S. Government and Federal Agency securities which have the explicit or implicit backing of the federal government. The market for municipal securities is also more limited than that for U.S. Government and Federal Agency obligations. Under our investment policy, municipal securities must be rated "AA" by at least one nationally recognized rating agency in order to be considered for investment. We sold our holdings in municipal securities during the year ended December 31, 2020.

**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio at December 31, 2020, are summarized in the following table. Maturities are based on the final contractual payment date, and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

|  | One Year or Less |                        | More than One Year through Five Years |                        | More than Five Years through Ten Years |                        | More than Ten Years |                        | Total            |                        |       |
|--|------------------|------------------------|---------------------------------------|------------------------|--|------------------------|---------------------|------------------------|------------------|------------------------|-------|
|  | Amortized Cost   | Weighted Average Yield | Amortized Cost                        | Weighted Average Yield | Amortized Cost                         | Weighted Average Yield | Amortized Cost      | Weighted Average Yield | Fair Value       | Weighted Average Yield |       |
| (Dollars in thousands)                         |                  |                        |                                       |                        |  |                        |                     |                        |                  |                        |       |
| <b>Securities available for sale:</b>          |                  |                        |                                       |                        |  |                        |                     |                        |                  |                        |       |
| U.S. Government and Federal Agency obligations | \$ 1,000         | 3.05%                  | \$ 1,500                              | 1.98%                  | \$ -                                   | -                      | \$ -                | -                      | \$ 2,500         | \$ 2,554               | 2.41% |
| Residential mortgage-backed securities         | -                | -                      | 57                                    | 5.09%                  | 3,521                                  | 3.25%                  | 9,539               | 2.90%                  | 13,117           | 13,990                 | 3.00% |
| Total securities available for sale            | <u>\$ 1,000</u>  | 3.05%                  | <u>\$ 1,557</u>                       | 2.87%                  | <u>\$ 3,521</u>                        | 3.25%                  | <u>\$ 9,539</u>     | 2.90%                  | <u>\$ 15,617</u> | <u>\$ 16,544</u>       | 2.84% |

## Sources of Funds

**General.** Deposits traditionally have been the primary source of funds for our lending and investment activities. In addition to deposits, we derive funds primarily from principal and interest payments on loans. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates, money market conditions and competition. Borrowings may also be used on a short-term basis to compensate for reductions in the availability of funds from other sources and may be used on a longer-term basis for general business purposes.

**Deposits.** We generate deposits primarily from within our market area through our branches. We offer a selection of deposit accounts, including demand accounts, savings accounts, certificates of deposit and individual retirement accounts. Deposit account terms vary, with the primary differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate.

Interest rates paid, maturity terms, service fees and premature withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. We rely upon personalized customer service, long-standing relationships with customers, and the favorable image of the Bank in the community to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. The following table sets forth the average balance and weighted average rate of our deposit products for the periods indicated.

|                             | December 31,           |                |                             |                    |                |                             |
|-----------------------------|------------------------|----------------|-----------------------------|--------------------|----------------|-----------------------------|
|                             | 2020                   |                |                             | 2019               |                |                             |
|                             | Average<br>Balance     | Percent        | Weighted<br>Average<br>Rate | Average<br>Balance | Percent        | Weighted<br>Average<br>Rate |
|                             | (Dollars in thousands) |                |                             |                    |                |                             |
| <b>Deposit type:</b>        |                        |                |                             |                    |                |                             |
| Interest-bearing demand     | \$ 24,376              | 14.61%         | 0.17%                       | \$ 24,104          | 15.54%         | 0.29%                       |
| Money market                | 10,128                 | 6.07%          | 0.21%                       | 10,650             | 6.87%          | 0.21%                       |
| Savings                     | 26,104                 | 15.65%         | 0.05%                       | 24,632             | 15.88%         | 0.05%                       |
| Certificates of deposit     | 78,950                 | 47.32%         | 1.69%                       | 77,258             | 49.82%         | 1.68%                       |
| Interest-bearing deposits   | 139,558                | 83.65%         |                             | 136,644            | 88.11%         |                             |
| Non-interest bearing demand | 27,268                 | 16.35%         | -                           | 18,439             | 11.89%         | -                           |
| Total deposits              | <u>\$ 166,826</u>      | <u>100.00%</u> | 1.01%                       | <u>\$ 155,083</u>  | <u>100.00%</u> | 1.03%                       |

|                             | At December 31,        |                |                             |                    |                |                             |                    |                |                             |
|-----------------------------|------------------------|----------------|-----------------------------|--------------------|----------------|-----------------------------|--------------------|----------------|-----------------------------|
|                             | 2018                   |                |                             | 2017               |                |                             | 2016               |                |                             |
|                             | Average<br>Balance     | Percent        | Weighted<br>Average<br>Rate | Average<br>Balance | Percent        | Weighted<br>Average<br>Rate | Average<br>Balance | Percent        | Weighted<br>Average<br>Rate |
|                             | (Dollars in thousands) |                |                             |                    |                |                             |                    |                |                             |
| <b>Deposit type:</b>        |                        |                |                             |                    |                |                             |                    |                |                             |
| Interest-bearing demand     | \$ 24,725              | 15.91%         | 0.23%                       | \$ 24,035          | 15.61%         | 0.22%                       | \$ 22,228          | 14.86%         | 0.22%                       |
| Money market                | 12,629                 | 8.12%          | 0.21%                       | 13,556             | 8.81%          | 0.21%                       | 14,000             | 9.36%          | 0.21%                       |
| Savings                     | 24,939                 | 16.05%         | 0.05%                       | 24,226             | 15.74%         | 0.05%                       | 22,041             | 14.73%         | 0.05%                       |
| Certificates of deposit     | 76,041                 | 48.92%         | 1.16%                       | 75,031             | 48.74%         | 0.93%                       | 74,808             | 49.99%         | 0.87%                       |
| Interest-bearing deposits   | 138,334                | 89.00%         |                             | 136,848            | 88.90%         |                             | 133,077            | 88.94%         |                             |
| Non-interest bearing demand | 17,102                 | 11.00%         | -                           | 17,085             | 11.10%         | -                           | 16,542             | 11.06%         | -                           |
| Total deposits              | <u>\$ 155,436</u>      | <u>100.00%</u> | 0.71%                       | <u>\$ 159,933</u>  | <u>100.00%</u> | 0.58%                       | <u>\$ 149,619</u>  | <u>100.00%</u> | 0.56%                       |

At December 31, 2020, the aggregate amount of all our certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$50.0 million. The following table sets forth the maturity of these certificates as of December 31, 2020.

|                                | December 31, 2020<br>(In thousands) |
|--------------------------------|-------------------------------------|
| <b>Maturity period:</b>        |                                     |
| Three months or less           | \$ 5,788                            |
| Over three through six months  | 4,750                               |
| Over six through twelve months | 12,385                              |
| Over twelve months             | 27,057                              |
| Total                          | <u>\$ 49,980</u>                    |

At December 31, 2020, certificates of deposit equal to or greater than \$250,000 totaled \$18.3 million of which \$10.5 million matures on or before December 31, 2021.

The following table sets forth all of our certificates of deposit classified by interest rate as of the dates indicated.

|                             | December 31,     |                  |                  |                  |                  |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
|                             | 2020             | 2019             | 2018             | 2017             | 2016             |
|                             | (In thousands)   |                  |                  |                  |                  |
| <b>Interest Rate Range:</b> |                  |                  |                  |                  |                  |
| 0.01 – 0.99%                | \$ 25,679        | \$ 17,296        | \$ 20,217        | \$ 25,240        | \$ 29,976        |
| 1.00 – 1.99%                | 22,853           | 27,632           | 36,031           | 46,972           | 44,573           |
| 2.00 – 2.99%                | 25,265           | 28,546           | 16,142           | 2,817            | 228              |
| 3.00 – 3.99%                | 5,037            | 4,869            | 3,237            | 7                | 44               |
| Total                       | <u>\$ 78,834</u> | <u>\$ 78,343</u> | <u>\$ 75,627</u> | <u>\$ 75,036</u> | <u>\$ 74,821</u> |

The following table sets forth by interest rate ranges information concerning the maturities of our certificates of deposit as of December 31, 2020.

|                             | Period to Maturity             |                      |                              |                       | Total            | Percent of Total Certificate Accounts |
|-----------------------------|--------------------------------|----------------------|------------------------------|-----------------------|------------------|---------------------------------------|
|                             | Less Than or Equal to One Year | More Than One to Two | More Than Two to Three Years | More Than Three Years |                  |                                       |
|                             | (Dollars in thousands)         |                      |                              |                       |                  |                                       |
| <b>Interest Rate Range:</b> |                                |                      |                              |                       |                  |                                       |
| 0.01 – 0.99%                | \$ 14,244                      | \$ 3,019             | \$ 5,156                     | \$ 3,260              | \$ 25,679        | 32.57%                                |
| 1.00 – 1.99%                | 8,136                          | 9,360                | 2,201                        | 3,156                 | 22,853           | 28.99%                                |
| 2.00 – 2.99%                | 11,896                         | 4,930                | 3,946                        | 4,493                 | 22,265           | 32.05%                                |
| 3.00 – 3.99%                | 1,471                          | 728                  | 2,015                        | 823                   | 5,037            | 6.39%                                 |
| Total                       | <u>\$ 35,747</u>               | <u>\$ 18,037</u>     | <u>\$ 13,318</u>             | <u>\$ 11,732</u>      | <u>\$ 78,834</u> | <u>100.00%</u>                        |

**Borrowings.** We may obtain advances from the Federal Home Loan Bank of Atlanta upon the security of the common stock we own in that bank and certain of our residential mortgage loans, provided certain standards related to creditworthiness have been met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. Federal Home Loan Bank advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending.

At December 31, 2020 and 2019, we were permitted to borrow up to an aggregate total of \$58.7 million and \$55.1 million, respectively, from the Federal Home Loan Bank of Atlanta. There were \$5.0 million and \$2.5 million in borrowings outstanding with the Federal Home Loan Bank at December 31, 2020 and 2019, respectively. Additionally, we had credit availability of \$2,000,000 with a correspondent bank for short-term liquidity needs, if necessary. There were no borrowings outstanding at December 31, 2020 and 2019 under this facility.

The following table shows certain information regarding Federal Home Loan Bank advances at or for the dates indicated:

|  | For the Years Ended December 31, |          |      |       |      |
|--|----------------------------------|----------|------|-------|------|
|  | 2020                             | 2019     | 2018 | 2017  | 2016 |
|  | (Dollars in thousands)           |          |      |       |      |
| Balance at end of period                                       | \$ 5,000                         | \$ 2,500 | \$ - | \$ -  | \$ - |
| Average balance during the period                              | 7,690                            | 103      | -    | 1,584 | -    |
| Maximum balance outstanding at any month-end during the period | 12,500                           | 2,500    | -    | 6,000 | -    |
| Weighted average interest rate at end of period                | 0.95%                            | 1.78%    | -    | -     | -    |
| Weighted average interest rate during period                   | 0.86%                            | 1.79%    | -    | 1.26% | -    |

## Subsidiaries

CBM Bancorp has no subsidiaries other than Chesapeake Bank of Maryland.

## Personnel

At December 31, 2020, the Bank had 37 full-time employees and five part-time employees, none of whom was a party to a collective bargaining agreement.

## Expense and Tax Allocation

The Bank entered into an agreement with CBM Bancorp to provide it with certain administrative support services for compensation not less than the fair market value of the services provided. In addition, the Bank and CBM Bancorp entered into an agreement to establish a method for allocating and for reimbursing the payment of their consolidated tax liability.

## TAXATION

CBM Bancorp and the Bank are subject to federal and state income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal and state taxation is intended only to summarize certain pertinent tax matters and is not a comprehensive description of the tax rules applicable to CBM Bancorp or Chesapeake Bank of Maryland.

Our federal and state tax returns have not been audited for the past five years.

### Federal Taxation

**Method of Accounting.** For federal income tax purposes, CBM Bancorp and the Bank currently report their income and expenses on the accrual method of accounting and use a tax year ending December 31 for filing their federal income tax returns. CBM Bancorp and the Bank file a consolidated federal income tax return.

**Bad Debt Reserves.** Prior to the Small Business Protection Act of 1996 (the “1996 Act”), the Bank was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at our taxable income. As a result of the 1996 Act, the Bank is permitted to use the reserve method in computing its bad debt deduction beginning with its 1996 federal tax return. Savings institutions were required to recapture any excess reserves over those established as of December 31, 1987 (base year reserve). At December 31, 2020, the Bank had \$1.5 million of reserves subject to recapture in excess of its base year reserves.

**Taxable Distributions and Recapture.** Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if the Bank failed to meet certain thrift asset and definitional tests. Federal legislation has eliminated these thrift-related recapture rules. At December 31, 2019, our total federal pre-1988 base year reserve was approximately \$1.5 million. However, under current law, pre-1988 base year reserves remain subject to recapture if the Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter.

**Alternative Minimum Tax.** For tax years beginning before December 31, 2017, the Internal Revenue Code imposed an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, less an exemption amount, referred to as “alternative minimum taxable income.” The alternative minimum tax is payable to the extent tax computed this way exceeds tax computed by applying the regular tax rates to regular taxable income. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Under the Tax Cuts and Jobs Act (the “Act”), for tax years beginning after December 31, 2017, the alternative minimum tax applicable to corporations is repealed. In addition, for tax years beginning after December 31, 2017 and ending before January 1, 2022, any alternative minimum tax credits are refundable in an amount equal to 50% (100% for tax years beginning in 2021) of the excess of the minimum tax credits for the tax year, over the amount of the credit allowable for the year against regular tax liability. Certain alternative minimum tax payments may be used as credits against regular tax liabilities in future years. At December 31, 2020, CBM Bancorp had no alternative minimum tax payments available to carry forward to future periods.

**Net Operating Loss Carryforwards.** As a result of the Act generally, a company may carry net operating losses forward indefinitely. At December 31, 2020, CBM Bancorp had no federal net operating loss carryforwards.



***Corporate Dividends-Received Deduction.*** CBM Bancorp, Inc. may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends-received deduction is 80% in the case of dividends received from a corporation in which a corporate recipient owns at least 20% of its stock, and corporations that own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf.

## **State Taxation**

The State of Maryland imposes an income tax of 8.25% on income measured in substantially the same manner as federally taxable income. CBM Bancorp, as a Maryland business corporation, as well as the Bank are required to file an annual report with and pay franchise taxes to the State of Maryland. Affiliated corporations that file a consolidated federal income tax return must file separate income tax returns for the State of Maryland.

***Net Operating Loss Carryforwards.*** As a result of the Act generally, a company may carry net operating losses forward indefinitely. As of December 31, 2020, the Company and the Bank had no net operating loss carryforwards for state income tax purposes.

## SUPERVISION AND REGULATION

### General

As a federal savings association, the Bank is subject to examination, supervision and regulation, primarily by the OCC and, secondarily, by the Federal Deposit Insurance Corporation (the “FDIC”). The federal system of regulation and supervision establishes a comprehensive framework of activities in which the Bank may engage and is intended primarily for the protection of depositors and the FDIC’s Deposit Insurance Fund, and not for the protection of security holders. The Bank also is a member of and owns stock in the Federal Home Loan Bank of Atlanta, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. These ratings are inherently subjective and the receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as the Bank or CBM Bancorp, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, the Bank must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

The OCC has primary enforcement responsibility over federal savings associations and has authority to bring enforcement action against all “institution-affiliated parties,” including directors, officers, stockholders, attorneys, appraisers and accountants for violations of laws and regulations and for engaging in unsafe and unsound practices. Formal enforcement actions include the issuance of capital directive or cease and desist order, civil money penalties, removal of officers and/or directors, and receivership or conservatorship of the institution.

As a savings and loan holding company, CBM Bancorp is required to comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”). It is required to file certain reports with the Federal Reserve and is subject to examination by and the enforcement authority of the Federal Reserve. CBM Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission (the “SEC”) under the federal securities laws.

Any change in applicable laws or regulations, whether by the OCC, FDIC, the Federal Reserve or Congress, could have a material adverse impact on the operations and financial performance of CBM Bancorp and the Bank.

Set forth below are certain material regulatory requirements that are or will be applicable to the Bank and CBM Bancorp. This description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on the Bank and CBM Bancorp.

### **The CARES Act and Initiatives Related to COVID-19**

In response to the COVID-19 pandemic, the Consolidated Appropriations Act of 2021 (“CARES Act”) was signed into law on March 27, 2020 to provide national emergency economic relief measures. Many of the CARES Act’s programs are dependent upon the direct involvement of U.S. financial institutions, such as the Bank, and have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve and other federal banking agencies, including those with direct supervisory jurisdiction over CBM Bancorp and the Bank. Furthermore, as the ongoing COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. In addition, it is possible that Congress will enact supplementary COVID-19 response legislation, including amendments to the CARES Act or new bills comparable in scope to the CARES Act. The Company continues to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

**Paycheck Protection Program.** Section 1102 of the CARES Act created the Paycheck Protection Program (“PPP”), a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. The Bank has participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for the first six months of the loan term. The PPP commenced on April 3, 2020 and was available to qualified borrowers through August 8, 2020. No collateral or personal guarantees were required. Neither the government nor lenders are permitted to charge the recipients any fees. It is anticipated that additional revisions to the SBA’s interim final rules on forgiveness and loan review procedures will be forthcoming to address these and related changes. In December 2020, Congress amended the CARES Act through the enactment of the Consolidated Appropriations Act of 2021 (the “CAA”) to add an additional \$900 billion of stimulus relief to mitigate the continued impacts of the pandemic. Among other things, the CAA renewed the PPP, allocating \$284.45 billion for new first time PPP loans under the existing PPP and permitting the expansion of existing PPP loans for certain qualified, existing PPP borrowers. As a participating lender in the PPP, the Bank continues to monitor legislative, regulatory, and supervisory developments related thereto.

**Guidance on Non-TDR Loan Modifications due to COVID-19.** On March 22, 2020, the federal bank regulatory agencies issued the “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus” (the “Interagency Statement”), which encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act provided that a qualified loan modification is exempt by law from classification as a troubled debt restructuring (“TDR”) as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States terminates. The CAA extended this relief to the earlier of January 1, 2022 or the first day of a bank’s fiscal year that begins after the national emergency ends. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators’ views on consumer protection considerations. In accordance with such guidance, the Bank is offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. See Note 4 to the consolidated financial statements for further information on the Bank’s COVID-19 loan modifications pursuant to the CARES Act.

## **Federal Banking Regulation**

**Business Activities.** A federal savings association derives its lending and investment powers from the Home Owners’ Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. The Bank may also establish, subject to specified investment limits, service corporation subsidiaries that may engage in certain activities not otherwise permissible for the Bank, including real estate investment and securities and insurance brokerage.

**Examinations and Assessments.** The Bank is primarily supervised by the OCC. The Bank is required to file reports with and is subject to periodic examinations by the OCC. The Bank is required to pay assessments to the OCC to fund the agency’s operations.

**Capital Requirements.** Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets ratio, and a Tier 1 capital to total average assets leverage ratio. These capital requirements took effect January 1, 2015 and are the result of a final rule implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).

The capital standards require banking organizations to maintain ratios of common equity Tier 1 capital, Tier 1 capital and Total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. The regulations also establish a minimum leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is composed of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that exercised an opt-out election regarding the treatment of

accumulated other comprehensive income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that did not exercise the accumulated other comprehensive income opt-out have accumulated other comprehensive income incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). The calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement effectively increases the minimum required risk-based capital ratios to 7% for common equity Tier 1 capital, 8.5% for Tier 1 capital and 10.5% for Total capital.

Under applicable federal statute, the federal bank regulatory agencies are required to take “prompt corrective action” with respect to institutions that do not meet specified minimum capital requirements. For these purposes, the statute establishes five capital categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the implementing regulations, in order to be considered well-capitalized, a bank must have a ratio of common equity Tier 1 capital to risk-weighted assets of 6.5%, a ratio of Tier 1 capital to risk-weighted assets of 8%, a ratio of total capital to risk-weighted assets of 10%, and a leverage ratio of 5%. In order to be considered adequately capitalized, a bank must have the minimum capital ratios required by the regulatory capital rule described above. Institutions with lower capital ratios are assigned to lower capital categories. Based on safety and soundness concerns, a bank may be assigned to a lower capital category than would otherwise apply based on its capital ratios. A bank that is not well-capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits. A bank that is not at least adequately capitalized is subject to numerous additional restrictions, and a guaranty by its holding company is required. A bank with a ratio of tangible equity to total assets of 2.0% or less is subject to the appointment of the FDIC as receiver if its capital level does not improve within 90 days.

At December 31, 2020, the Bank’s capital exceeded all applicable requirements and the Bank met the criteria for being considered “well-capitalized.”

The Economic Growth, Regulatory Relief and Consumer Protection Act (the “EGRRCPA”), enacted in May 2018, introduced an optional simplified measure of capital adequacy for qualifying community banking organizations with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of tangible equity capital divided by average consolidated assets (“CBLR”) of between 8% and 10%. Under the statute, any qualifying depository institution or holding company that maintains a leverage ratio exceeding the CBLR will be considered to satisfy the generally applicable leverage and risk-based regulatory capital requirements.

Under the final rule adopted by the federal banking agencies under the EGRRCPA, a community banking organization may opt into the CBLR framework if it has a Tier 1 leverage ratio of at least 9%, less than \$10 billion in total consolidated assets and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework will not be required to report or calculate compliance with risk-based capital requirements and will also be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations.

The final CBLR rule took effect on January 1, 2020, and banking organizations that wished to opt into the CBLR framework were able to do so through their Call Reports for the quarter ending March 31, 2020. We elected not to use the CBLR framework.

**Loans-to-One Borrower.** The Bank is subject to a statutory lending limit on aggregate loans to one borrower or a related group of borrowers. That limit is equal to 15% of our unimpaired capital and surplus, except that for loans fully secured by specified readily marketable collateral, the limit is increased to 25%. As of December 31, 2020, the Bank was in compliance with the loans-to-one borrower limitations.

**Qualified Thrift Lender Test.** As a federal savings association, the Bank is required to meet a qualified thrift lender (“QTL”) test to avoid certain restrictions on its operations. Under the QTL test, the Bank must maintain at least 65% of its

“portfolio assets” in “qualified thrift investments” (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine out of every twelve months on a rolling basis. Portfolio assets generally means total assets of a savings association, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association’s business. Alternatively, the Bank may also satisfy the QTL test by qualifying as a “domestic building and loan association” as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test must operate under specified restrictions set forth in the Home Owners’ Loan Act. At December 31, 2020, the Bank satisfied the QTL test.

**Limitations on Dividends and Other Capital Distributions.** Federal regulations impose restrictions on capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the savings association’s capital account. A federal savings association must file an application with the OCC for approval of a capital distribution if (i) the total capital distributions for the applicable calendar year exceed the sum of the savings association’s net income for that year to date plus the savings association’s retained net income for the preceding two years; (ii) the savings association would not be at least adequately capitalized following the distribution; (iii) the distribution would violate any applicable statute, regulation, supervisory agreement or regulatory condition; or (iv) the savings association is not eligible for expedited treatment of its filings under application processing rules of the OCC. Even if an application is not otherwise required, a savings association that is a subsidiary of a savings and loan holding company, such as the Bank, must file a notice with the Federal Reserve at least 30 days before the board of directors declares a dividend or approves a capital distribution.

A notice or application related to a capital distribution may be disapproved if: (i) the savings association would be undercapitalized following the distribution; (ii) the proposed capital distribution raises safety and soundness concerns; or (iii) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. Finally, the Bank may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with the mutual-to-stock conversion of Banks of the Chesapeake, M.H.C.

**Standards for Safety and Soundness.** Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

**Transactions with Related Parties.** A federal savings association’s authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and Regulation W of the Federal Reserve. An affiliate is generally a company that controls, or is under common control with an insured depository institution such as the Bank. CBM Bancorp is an affiliate of the Bank because of its control of the Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Finally, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

The Bank is also subject to certain statutory and regulatory restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. These provisions generally require extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank’s capital.

In addition, extensions of credit in excess of certain limits must be approved by the Bank's board of directors. Extensions of credit to executive officers are subject to additional limits under applicable regulation.

***Insurance of Deposit Accounts.*** The FDIC insures deposits at federally insured financial institutions such as the Bank. Deposit accounts in the Bank are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Assessments for most institutions are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. The assessment range (inclusive of possible adjustments) for most banks and savings associations is 1.5 basis points to 30 basis points of total assets less tangible equity.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

***Community Reinvestment Act and Fair Lending Laws.*** All savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings association, the OCC is required to assess the savings association's record of compliance with the Community Reinvestment Act. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The Community Reinvestment Act requires all insured depository institutions to publicly disclose their rating. The Bank received a "outstanding" Community Reinvestment Act rating in its most recent federal examination.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A failure to comply with the Equal Credit Opportunity Act or the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice.

***Privacy Regulations.*** Federal regulations generally require that the Bank disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. The Bank has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

***Other Consumer Protection Regulations.*** In connection with its deposit taking and lending activities, the Bank is subject to numerous federal and state laws designed to protect customers. The deposit operations of the Bank are subject to state usury laws and federal laws concerning interest rates. Our loan operations are subject to state and federal laws applicable to credit transactions, including the:

- Truth in Lending Act, requiring financial institutions to disclose credit terms in meaningful and consistent ways;
- Real Estate Settlement Procedures Act, requiring lenders to provide borrowers with information regarding the nature and cost of real estate settlements and prohibiting certain lending practices with respect to real estate transactions;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

**Bank Secrecy Act / USA PATRIOT ACT.** The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

**Prohibitions against Tying Arrangements.** Federal savings associations are prohibited, subject to certain exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

**Federal Home Loan Bank System.** The Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility for member institutions. As a member of the Federal Home Loan Bank of Atlanta, the Bank is required to hold shares of capital stock in that Federal Home Loan Bank. The Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2020.

## **Holding Company Regulation**

**General.** As a savings and loan holding company, CBM Bancorp is subject to regulation, supervision and examination by the Federal Reserve. The Federal Reserve has enforcement authority over CBM Bancorp and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve to restrict or prohibit activities that are determined to be a risk to the Bank.

**Permissible Activities.** CBM Bancorp's business activities are limited to the activities authorized by statute and regulation for savings and loan holding companies, the activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, and, provided certain conditions are met and financial holding company status is elected, the activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act.

**Acquisitions.** Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or savings and loan holding company without prior written approval of the Federal Reserve, and from acquiring or retaining control of any depository institution not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve must consider such things as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on and the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

**Capital.** The federal regulatory capital rules apply to all depository institutions as well as to all depository institution holding companies with consolidated assets of \$3 billion or more. The regulatory capital requirements generally do not apply on a consolidated basis to a bank or savings and loan holding company with total consolidated assets of less than \$3 billion unless the holding company: (i) is engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (ii) conducts significant off-balance sheet activities (including securitization and asset management or administration) either directly or through a nonbank subsidiary; or (iii) has a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC. The Federal Reserve may apply the regulatory capital standards at its discretion to any depository institution holding company, regardless of asset size, if such action is warranted for supervisory purposes. Because CBM Bancorp has total consolidated assets of less than \$3 billion and does not engage in activities that would trigger application of the federal regulatory capital rules, it is not at present subject to consolidated capital requirements under such rules.

**Source of Strength.** Under the Home Owners' Loan Act, a savings and loan holding company is required to act as a source of financial and managerial strength to its subsidiary institutions and to commit resources to support each subsidiary institution. Under this source of strength doctrine, the Federal Reserve may require a savings and holding company to make capital injections into a troubled subsidiary institution. The Federal Reserve may charge the holding company with engaging in unsafe and unsound practices if it fails to commit resources to such a subsidiary institution or if it undertakes actions that the Federal Reserve believes might jeopardize its ability to commit resources to such subsidiary. A capital injection may be required at times when the holding company does not have the resources to provide it.

**Dividends and Stock Repurchases.** The Federal Reserve has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of capital distributions previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also states that a holding company should inform the Federal Reserve supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of CBM Bancorp to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

### **Federal Securities Laws**

CBM Bancorp common stock is registered with the SEC. CBM Bancorp is subject to the periodic reporting, proxy solicitation, insider trading restrictions and other requirements of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

### **Emerging Growth Company Status**

CBM Bancorp is an emerging growth company under the Jumpstart Our Business Startups Act (the "JOBS Act"). We will cease to be an emerging growth company upon the earliest of: (i) the last day of the fiscal year following the fifth anniversary of the date of our first sale of common equity securities pursuant to an effective registration statement under the Securities Act of 1933; (ii) the first fiscal year after our annual gross revenues are \$1.0 billion or more; (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; or (iv) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, CBM Bancorp will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "smaller reporting company" under SEC regulations (generally less than \$75 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. CBM Bancorp has elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.



**Item 1A. Risk Factors**

Not applicable, as CBM Bancorp is a “smaller reporting company”.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of December 31, 2020, the net book value of our office properties was \$1.5 million, and the net book value of our furniture, fixtures and equipment was \$211,000. The following table sets forth information regarding our offices.

| <u>Location</u>   | <u>Leased or Owned</u> | <u>Year Acquired or Leased</u> | <u>Net Book Value of Real Property (In thousands)</u> |
|---|------------------------|--------------------------------|---|
| <b>Main Office:</b><br>2001 East Joppa Road<br>Baltimore, Maryland 21234                      | Owned                  | 1972                           | \$ 673  |
| <b>Other Properties:</b><br>Arbutus Branch<br>5424 Carville Avenue<br>Arbutus, Maryland 21227 | Owned                  | 1980                           | 187   |
| Bel Air Branch<br>1-A Bel Air South Parkway<br>Bel Air, Maryland 21015                        | Owned                  | 2003                           | 683   |
| Pasadena Branch<br>3820 Mountain Road<br>Pasadena, Maryland 21122                             | Leased                 | 1987                           | N/A   |

We believe that current facilities are adequate to meet our present and foreseeable needs, subject to possible future expansion.

**Item 3. Legal Proceedings**

We are not involved in any pending legal proceedings as a defendant other than routine legal proceedings occurring in the ordinary course of business. As of December 31, 2020, we were not involved in any legal proceedings the outcome of which would be material to our consolidated financial condition or consolidated results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

### Item 5. Market Value for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Capital Market under the symbol “CBMB.” As of March 23, 2021, we had approximately 165 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 3,527,033 shares of common stock outstanding. CBM Bancorp, Inc. began trading on the NASDAQ Capital Market on September 28, 2018.

| Quarter ending                   | Price per Share |          |
|----------------------------------|-----------------|----------|
|                                  | High            | Low      |
| <b>2020</b>                      |                 |          |
| Quarter ended December 31, 2020  | \$ 13.50        | \$ 13.28 |
| Quarter ended September 30, 2020 | 12.28           | 12.25    |
| Quarter ended June 30, 2020      | 12.30           | 12.30    |
| Quarter ended March 31, 2020     | 11.58           | 11.45    |
| <b>2019</b>                      |                 |          |
| Quarter ended December 31, 2019  | \$ 14.12        | \$ 14.12 |
| Quarter ended September 30, 2019 | 14.13           | 14.00    |
| Quarter ended June 30, 2019      | 13.95           | 13.80    |
| Quarter ended March 31, 2019     | 12.95           | 12.95    |

*Dividends.* The Company declared a special dividend of \$0.50 per share for shareholders of record as of March 5, 2021 and paid such dividend on March 19, 2021. During the year ended December 31, 2020, the Company paid a special dividend of \$0.50 per share. The Company did not pay a dividend during the year ended December 31, 2019. The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements and will depend upon a number of factors, including the following: our financial condition and results of operations; tax considerations, regulatory capital requirements, industry standards, and economic conditions. No assurances can be given that cash dividends will be paid again or that, if paid will not be reduced.

Unlike the Bank, the Company is not restricted by OCC regulations on the payment of dividends to its shareholders. However, the Federal Reserve has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Federal Reserve guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of CBM Bancorp, Inc. to pay dividends or otherwise engage in capital distributions.

On May 14, 2019, the Board of Directors authorized the repurchase of up to 169,280 shares of the Company’s outstanding common stock for the Trust. The repurchase program was equal to the number of restricted stock shares eligible to be granted in the 2019 Plan.

The following table sets forth information in connection with repurchases of the Company’s shares of common stock for the 2019 Plan during the periods listed.

| Period                 | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares That May Yet Be Purchased Under the Plan |
|------------------------|----------------------------------|------------------------------|--|---|
| May 14 – 31, 2019      | 2,822                            | \$ 13.69                     | 2,822  | 166,458   |
| June 1 – 30, 2019      | 33,135                           | 13.85                        | 35,957   | 133,323   |
| August 1 – 31, 2019    | 30,000                           | 13.69                        | 65,957   | 103,323   |
| September 1 – 30, 2019 | 36,000                           | 13.92                        | 101,957  | 67,323  |
| October 1 – 31, 2019   | 67,323                           | 14.09                        | 169,280  | -   |

On December 2, 2019, the Board of Directors authorized a plan to repurchase up to \$6,000,000 of the Company's outstanding common stock. The repurchases were made during a one-year period, in privately negotiated transactions, or in such other manner as would comply with the applicable policy, laws and regulations.

The following table sets forth information in connection with repurchases of the Company's shares of common stock during the periods listed.

| <b>Period</b>         | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Value of Shares Purchased as Part of Publicly Announced Plans</b> | <b>Maximum Value of Shares That May Yet Be Purchased Under the Plan</b> |
|-----------------------|---|-------------------------------------|--|---|
| December 2 – 31, 2019 | 23,495                                  | \$ 14.15                            | \$ 332,545   | \$ 5,667,455  |
| January 1 – 31, 2020  | 76,675                                  | 14.23                               | 1,423,565  | 4,576,435   |
| February 1 – 29, 2020 | 7,500                                   | 14.34                               | 1,531,121  | 4,468,879   |
| March 1 – 31, 2020    | 262,588                                 | 13.55                               | 5,089,565  | 910,435   |
| April 1 – 30, 2020    | 8,084                                   | 11.38                               | 5,181,581  | 818,419   |
| May 1 – 31, 2020      | 21,700                                  | 11.94                               | 5,440,665  | 559,335   |
| June 1 – 30, 2020     | 33,200                                  | 12.05                               | 5,840,800  | 159,200   |
| July 1 – 31, 2020     | 12,900                                  | 12.19                               | 5,998,057  | 1,943   |
| August 1 – 31, 2020   | 161                                     | 12.07                               | 6,000,000  | -   |

On August 18, 2020, upon completion of the previous plan dated December 31, 2019, the Board of Director authorized a plan to repurchase up to an additional \$3,500,000 of the Company's outstanding common stock. The repurchases will be made during a one-year period on the open market, in privately negotiated transactions, or in such other manner as will comply with applicable policy, laws and regulations.

The following table sets forth information in connection with repurchases of the Company's shares of common stock during the periods listed.

| <b>Period</b>          | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Value of Shares Purchased as Part of Publicly Announced Plans</b> | <b>Maximum Value of Shares That May Yet Be Purchased Under the Plan</b> |
|------------------------|---|-------------------------------------|--|---|
| August 18 – 31, 2020   | 19,864                                  | \$ 12.03                            | \$ 239,063   | \$ 3,260,937  |
| September 1 – 30, 2020 | 51,500                                  | 12.04                               | 859,140  | 2,640,860   |
| October 1 – 31, 2020   | 1,000                                   | 12.30                               | 871,436  | 2,628,564   |
| November 1 – 30, 2020  | 5,500                                   | 13.04                               | 943,162  | 2,556,838   |
| December 1 – 31, 2020  | 17,200                                  | 13.21                               | 1,170,446  | 2,329,554   |

## Item 6. Selected Financial Data

The following tables set forth selected consolidated historical financial and other data of CBM Bancorp and the Bank as of and for the periods indicated. The following is only a summary and you should read it in conjunction with consolidated financial statements of CBM Bancorp. and notes beginning on page F-1 of this Annual Report. The information at December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019, is derived in part from the audited consolidated financial statements that appear in this Annual Report. The information at and for the years ended December 31, 2018, 2017 and 2016 are derived in part from audited financial statements that are not included in this Annual Report.

|   | <b>December 31,</b>   |             |             |             |             |
|---|-----------------------|-------------|-------------|-------------|-------------|
|   | <b>2020</b>           | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|   | <b>(In thousands)</b> |             |             |             |             |
| <b>Selected Financial Condition Data:</b> |                       |             |             |             |             |
| Total assets                              | \$ 234,804            | \$ 220,402  | \$ 215,413  | \$ 177,903  | \$ 174,456  |
| Cash and cash equivalents                 | 47,608                | 5,987       | 18,847      | 12,030      | 21,443      |
| Time deposits in other banks              | 6,448                 | 7,936       | 6,944       | 4,960       | 6,948       |
| Investment securities                     | 16,544                | 37,091      | 37,447      | 10,247      | 8,239       |
| Loans held for sale                       | 6,074                 | 1,730       | 211         | 1,218       | 299         |
| Loans receivable, net                     | 148,579               | 158,245     | 142,320     | 139,047     | 124,526     |
| Bank-owned life insurance                 | 4,831                 | 4,724       | 4,609       | 5,367       | 7,143       |
| Premises and equipment, net               | 1,754                 | 1,829       | 1,925       | 1,927       | 1,878       |
| Foreclosed real estate                    | 775                   | 845         | 865         | 865         | 1,440       |
| Deposits                                  | 174,780               | 156,441     | 153,750     | 154,786     | 151,286     |
| Borrowings                                | 5,000                 | 2,500       | -           | -           | -           |
| Total equity                              | 53,563                | 59,935      | 60,347      | 21,603      | 21,603      |

|  | <b>For the Years Ended December 31,</b> |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
|  | <b>2020</b>                             | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|  | <b>(In thousands)</b>                   |             |             |             |             |
| <b>Selected Operating Data:</b>                                      |   |             |             |             |             |
| Interest and dividend income   | \$ 8,766                                | \$ 9,039    | \$ 7,702    | \$ 6,929    | \$ 6,164    |
| Interest expense   | 1,480                                   | 1,404       | 978         | 811         | 744         |
| Net interest income  | 7,286                                   | 7,635       | 6,724       | 6,118       | 5,420       |
| Provision for (reversal of) loan losses                              | 350                                     | 175         | 575         | 1,025       | (62)        |
| Net interest income after provision<br>for (reversal of) loan losses | 6,936                                   | 7,460       | 6,149       | 5,093       | 5,482       |
| Non-interest income  | 1,574                                   | 592         | 581         | 826         | 627         |
| Non-interest expense   | 7,148                                   | 6,776       | 5,834       | 5,411       | 5,506       |
| Income before income taxes   | 1,362                                   | 1,276       | 896         | 508         | 603         |
| Income tax expense   | 419                                     | 368         | 223         | 507         | 229         |
| Net income   | \$ 943                                  | \$ 908      | \$ 673      | \$ 1        | \$ 374      |

|   | <b>At or For the Years Ended December 31,</b> |             |             |             |             |
|---|---|-------------|-------------|-------------|-------------|
|   | <b>2020</b>                                   | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| <b>Performance Ratios:</b>  |   |             |             |             |             |
| Return on average assets  | 0.41%   | 0.42%       | 0.35%       | *           | 0.22%       |
| Return on average equity  | 1.72%   | 1.50%       | 2.10%       | *           | 1.73%       |
| Interest rate spread  | 3.05%   | 3.33%       | 3.49%       | 3.58%       | 3.42%       |
| Net interest margin   | 3.33%   | 3.68%       | 3.67%       | 3.68%       | 3.50%       |
| Efficiency ratio  | 79.89%  | 82.13%      | 79.86%      | 75.08%      | 83.91%      |
| Non-interest expense to average assets                                  | 3.10%   | 3.12%       | 3.02%       | 3.02%       | 3.18%       |
| Average interest-earning assets to average interest-bearing liabilities | 148.40%                                       | 151.79%     | 132.56%     | 120.05%     | 116.46%     |
| <b>Capital Ratios</b>   |   |             |             |             |             |
| Common equity tier 1 capital to risk-weighted assets (1)                | 28.38%  | 27.74%      | 29.67%      | 16.64%      | 17.74%      |
| Total risk-based capital to risk-weighted assets (1)                    | 29.53%  | 28.68%      | 30.58%      | 17.48%      | 18.34%      |
| Tier 1 capital to risk-weighted assets(1)                               | 28.38%  | 27.74%      | 29.67%      | 16.64%      | 17.74%      |
| Tier 1 capital to average assets (1)                                    | 18.66%  | 19.08%      | 18.45%      | 11.94%      | 11.97%      |
| Average equity to average assets  | 23.34%  | 27.67%      | 16.69%      | 12.29%      | 12.51%      |
| <b>Asset Quality Ratios</b>   |   |             |             |             |             |
| Allowance for loan losses as a percentage of total loans                | 1.15%   | 0.86%       | 0.83%       | 0.74%       | 0.54%       |
| Allowance for loan losses as a percentage of non-performing loans       | 918.62%                                       | 281.43%     | 95.73%      | 118.22%     | 405.36%     |
| Net charge-offs (recoveries) to average outstanding loans               | *   | (0.01)%     | 0.30%       | 0.48%       | 0.05%       |
| Non-performing loans as a percentage of total loans                     | 0.12%   | 0.31%       | 0.86%       | 0.63%       | 0.13%       |
| Non-performing assets as a percentage of total assets                   | 0.41%   | 0.61%       | 0.98%       | 0.98%       | 0.92%       |
| <b>Other Data:</b>  |   |             |             |             |             |
| Number of offices   | 4   | 4           | 4           | 4           | 4           |
| Number of full-time equivalent employees                                | 40  | 44          | 43          | 43          | 43          |

\* Not material.

(1) Capital ratios are for the Bank only.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information at December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019 is derived in part from the audited consolidated financial statements that appear on page F-1 of this Annual Report.

### **Overview**

The Bank provides financial services to individuals and businesses from our main office in Parkville, Maryland, and from our three additional full-service banking offices in Arbutus, Bel Air and Pasadena, Maryland. Our primary market area includes the Baltimore Metropolitan Area and its surrounding counties. Our principal business consists of attracting retail deposits from the general public in our market area and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family residential mortgage loans, nonresidential real estate loans, construction and land development loans, home equity loans and lines of credit, and, to a lesser extent, commercial business loans and consumer loans. We retain our loans in portfolio depending on market conditions. We sell a majority of our fixed-rate one- to four-family residential mortgage loans in the secondary market. We also invest in various investment securities. Our revenue is derived principally from interest on loans and investments and loan sales. Our primary sources of funds are deposits and principal and interest payments on loans and securities. We also have access to Federal Home Loan Bank advances which are available and may be utilized from time to time.

Our results of operations depend primarily on our net interest income which is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our results of operations are also affected by our provisions for loan losses, non-interest income and non-interest expense. Non-interest income currently consists primarily of gains recognized from the sale of residential mortgage loans in the secondary market, fees and service charges on deposit accounts, income from bank-owned life insurance policies and sales of securities. Non-interest expense currently consists primarily of expenses related to salaries and employee benefits, occupancy, data processing related operations, professional fees, real estate owned and other expenses.

An increase in interest rates will present us with a challenge in managing our interest rate risk. As a general matter, our interest-bearing liabilities may reprice or mature more quickly than our interest-earning assets, which can result in interest expense increasing more rapidly than increases in interest income as interest rates increase. Therefore, increases in interest rates may adversely affect our net interest income and net economic value, which in turn would likely have an adverse effect on our results of operations. As described in "Management of Market Risk," our net interest income and our net economic value would decrease as a result of an instantaneous increase in interest rates. To help manage interest rate risk, we promote core deposit products and we are diversifying our loan portfolio by continuing to sell a portion of our longer term conforming fixed-rate one-to four-family residential real estate loans and increase nonresidential real estate lending with shorter repricing terms.

Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities. We expect our return on equity to remain relatively low until we are able to leverage the additional capital we received from the stock offering.

## **Business Strategy**

We intend to continue to operate as a well-capitalized and profitable community-oriented bank dedicated to providing exceptional personal service to our individual and business customers. We believe that we have a competitive advantage in the markets we serve because of our knowledge of the local marketplace, our presence in the communities we serve and our long-standing history of providing superior, relationship-based customer service. Our core business strategies are discussed below.

- ***Continue to originate and sell certain residential real estate loans.*** Residential mortgage lending has historically been a significant part of our business, and we recognize that originating one- to four-family residential real estate loans is essential to our status as a community-oriented bank. During the year ended December 31, 2020, we originated \$54.1 million in one- to four-family residential real estate loans, selling \$37.3 million in one- to four-family residential real estate loans and recording gains of \$1.1 million on the sale of those loans. Similarly, during the year ended December 31, 2019, we originated \$28.7 million in one- to four-family residential real estate loans, selling \$8.9 million in one- to four-family residential real estate loans and recording gains of \$215,000 on the sale of those loans. We intend to continue to sell in the secondary market a portion of the long-term conforming fixed-rate one- to four-family residential real estate loans that we originate to increase non-interest income and manage the interest rate risk of our loan portfolio.
- ***Increase nonresidential real estate lending.*** In order to increase the yield on our loan portfolio and reduce the term to repricing, we plan to increase our nonresidential real estate lending while maintaining what we believe are conservative underwriting standards. We will focus our nonresidential real estate lending on small businesses located in our market area, targeting owner-occupied businesses.
- ***Maintain high asset quality.*** Strong asset quality is critical to the long-term financial success of a community bank. We attribute our high asset quality to maintaining conservative underwriting standards, the diligence of our loan collection personnel and the stability of the local economy. At December 31, 2020, our non-performing assets to total assets ratio was 0.41%. Because substantially all of our loans are secured by real estate, and the level of our non-performing loans has been low in recent years, we believe that our allowance for loan losses is adequate to absorb the probable losses inherent in our loan portfolio.
- ***Increase core deposits, with an emphasis on low-cost commercial demand deposits.*** Deposits are the major source of balance sheet funding for lending and other investments. We have made investments in new products and services, as well as enhancing our electronic delivery solutions including business bill-pay in an effort to become more competitive in the financial services marketplace and attract more core deposits, our least costly source of funds. Our ratio of core (non-time) deposits to total deposits was 45.10% at December 31, 2020. We plan to continue to aggressively market our core deposit accounts, emphasizing our high-quality service and competitive pricing of these products.

## Critical Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an “emerging growth company” we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represents our critical accounting policies:

**Allowance for Loan Losses.** The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment.

The allowance for loan losses represents management’s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that we have estimated to have been incurred. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan category that are not considered impaired. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative risk factors.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, the OCC, as an integral part of their examination process, periodically reviews our allowance for loan losses. This agency may require us to recognize adjustments to the allowance based on judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings.

**Deferred Tax Assets.** We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, our estimates and judgments to calculate our deferred tax accounts have not required significant revision.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies, these assumptions require us to make judgments about future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. Valuation allowances are provided to reduce deferred tax assets to an amount that is more likely than not to be realized. In evaluating the need for a valuation allowance, we must estimate our taxable income in future years and the impact of tax planning strategies. If we were to determine that we would not be able to realize a portion of our net deferred tax asset in the future for which there is no valuation allowance, an adjustment to the net deferred tax asset would be charged to earnings in the period such determination was made. Conversely, if we were to make a determination that it is more likely than not that the deferred tax assets for which we had established a valuation allowance would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded.

***The ongoing COVID-19 pandemic and measures intended to prevent its spread and mitigate its adverse effects may have a material adverse effect on our business, results of operations, financial condition and prospects. Any such effect will depend on future developments which are uncertain and difficult to predict.***

The COVID-19 pandemic has created, and may continue to create, significant disruptions of the United States and global economies and financial markets. Governments, businesses, and the public have taken and will continue to take actions to contain the spread of COVID-19 and mitigate its effects, including quarantines, travel bans, “stay at home” orders, cancellation of events and travel, closures of businesses and schools, fiscal stimulus, and legislation intended to provide monetary aid and other relief. The scope, duration, and ultimate adverse effect of COVID-19 continue to evolve and cannot be known at this time. COVID-19 and related efforts to contain it have disrupted economic activity and the functioning of financial markets, impacted interest rates, and created financial uncertainty.

The United States government has attempted to mitigate some of the most severe anticipated economic effects of the virus. Enactment of the CARES Act, the distribution of vaccinations and monetary assistance in various forms are intended to help contain spread of the virus and its economic impact. However, there can be no assurance that these actions will be effective.

To date, our Bank has avoided many of the adverse financial effects of the virus. Nevertheless, the outbreak has adversely impacted, and may further adversely impact, our workforce and operations, and the operations of our borrowers and other customers. We may experience losses due to these adverse factors negatively impacting our business and/or causing our customers to be unable to meet obligations to us. In addition, the business and operations of third-party service providers who provide critical services for us could be adversely impacted.

COVID-19 has caused us to reconsider and modify certain of our business practices, including adoption of work from home and social distancing policies and procedures for our employees and customers. Because the technology in employees’ homes may be more limited or less reliable than in our offices, the Bank’s work from home measures introduce additional operational risk, including increased cybersecurity risk.

In response to the COVID-19 pandemic, we provided payment relief to qualified commercial and mortgage/consumer loans customers. As of December 31, 2020, almost all of the loans granted modifications/deferrals had returned to their original payment plans without a significant impact on payment delinquencies. For additional information, see Note 4 of Notes to Consolidated Financial Statements.

We may further adjust our business practices if required by government authorities or we determine are in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate risks to us posed by the virus or will otherwise be satisfactory to government authorities.

The extent to which COVID-19 impacts our business, results of operations, financial condition and prospectus will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, actions taken to contain the virus or treat its impact, the rollout and effectiveness of vaccination programs for the virus, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience adverse impacts as a result of COVID-19’s economic impact.



## Comparison of Financial Condition at December 31, 2020 and December 31, 2019

**Total Assets.** Total assets increased \$14.4 million, or 6.53%, to \$234.8 million at December 31, 2020 from \$220.4 million at December 31, 2019. The increase in total assets was primarily the result of an increase in cash and cash equivalents funded by an increase in deposits and a decrease in investment securities and loans as discussed in more detail below.

**Cash and Cash Equivalents.** Cash and cash equivalents increased \$41.6 million to \$47.6 million at December 31, 2020 from \$6.0 million at December 31, 2019. The increase in cash and cash equivalents was primarily driven by the increase in deposits and a decrease in investment securities and loans as discussed in more detail below.

**Time Deposits in Other Banks.** Time deposits in other banks decreased by \$1.5 million, or 18.99%, to \$6.4 million at December 31, 2020 from \$7.9 million at December 31, 2019. This decrease was due to calls and maturities of \$1.5 million.

**Investment Securities.** Investment securities decreased \$20.6 million, or 55.53%, to \$16.5 million at December 31, 2020 from \$37.1 million at December 31, 2019. The decrease was due to the sale of municipal securities and residential mortgage backed securities in the amount of \$7.3 million and principal repayments and calls in the amount of \$13.6 million. All of our investment securities are currently classified as available for sale.

**Loans Held for Sale.** Loans held for sale increased \$4.4 million to \$6.1 million at December 31, 2020 from \$1.7 million at December 31, 2019 as a result of an increase in originations of one-to four-family residential real estate loans during the year due to an increase in refinancing in the residential mortgage market due to the lower rate environment.

**Net Loans.** Net loans decreased \$9.7 million, or 6.13%, to \$148.6 million at December 31, 2020 from \$158.3 million at December 31, 2019. One-to four-family residential real estate loans decreased \$12.6 million, or 16.87%, to \$62.1 million at December 31, 2020 from \$74.7 million at December 31, 2019 as higher yielding loans have been repaid and refinanced due to the current low rate environment for residential loans. Home equity loans and lines of credit decreased \$593,000, or 7.92%, to \$6.9 million at December 31, 2020 from \$7.5 million at December 31, 2019. Construction and land development loans increased \$1.5 million, or 16.13% to \$10.8 million at December 31, 2020 from \$9.3 million at December 31, 2019. Our nonresidential loans decreased \$803,000, or 1.32%, to \$60.2 million at December 31, 2020 from \$61.0 million at December 31, 2019. Our commercial loans increased \$3.3 million, or 47.83%, to \$10.2 million at December 31, 2020 from \$6.9 million at December 31, 2019 due to the origination of \$8.6 million in PPP loans, net of \$4.1 million in PPP loan forgiveness. Our consumer loans decreased \$186,000, or 35.56%, to \$337,000 at December 31, 2020 from \$523,000 at December 31, 2019.

**Bank-owned Life Insurance.** We invest in bank-owned life insurance (“BOLI”) to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses at the time of investment. This investment is accounted for using the cash surrender value method and is recorded at the amount that can be realized under the insurance policies at the balance sheet date. At December 31, 2020 and December 31, 2019, the aggregate cash surrender value of these policies was \$4.8 million and \$4.7 million, respectively.

**Deposits.** Deposits increased \$18.4 million, or 11.76%, to \$174.8 million at December 31, 2020 from \$156.4 million at December 31, 2019. Our non-interest-bearing demand deposits increased \$12.9 million, or 65.15%, to \$32.7 million at December 31, 2020 from \$19.8 million at December 31, 2019, primarily as a result of PPP loan origination funding being deposited into the non-interest bearing accounts of our borrowers. Our interest-bearing demand deposits increased \$1.4 million, or 5.88%, to \$25.2 million at December 31, 2020 from \$23.8 million at December 31, 2019. Our money market deposits increased \$486,000, or 4.76%, to \$10.7 million at December 31, 2020 from \$10.2 million at December 31, 2019. Our savings accounts increased by \$3.1 million, or 12.76%, to \$27.4 million at December 31, 2020 from \$24.3 million at December 31, 2019. Our certificates of deposit increased by \$491,000, or 0.63%, to \$78.8 million at December 31, 2020 from \$78.3 million at December 31, 2019.

**Borrowings.** Borrowings increased \$2.5 million to \$5.0 million at December 31, 2020 from \$2.5 million at December 31, 2019. The variable rate short-term borrowing of \$2,500,000 that existed at December 31, 2019 was replaced with a longer term fixed rate borrowing of \$5,000,000 at December 31, 2020 maturing in March 2023.

**Total Stockholders' Equity.** Total stockholders' equity decreased by \$6.3 million, or 10.52%, to \$53.6 million at December 31, 2020 from \$59.9 million at December 31, 2019. Earnings of \$943,000, an increase of \$166,000 in other comprehensive income related to interest fluctuations on the Company's available for sale securities and an increase of \$1.2 million in additional paid in capital for the recording of stock-based compensation relating to the release of shares from the Employee Stock Ownership Plan (the “ESOP”) and the 2019 Equity Incentive Plan were offset by a special cash dividend of \$1.8 million and the repurchase of \$6.8 million of common stock which was part of stock repurchase plans that were approved by the Board of Directors on December 2, 2019 and August 18, 2020.

## Average Balance Sheets

The following tables set forth average balance sheets, average yields and costs, and certain other information at the dates and for the periods indicated. No tax equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances of loans. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense. Loan balances exclude loans held for sale.

|   | For the Years Ended December 31,         |                                   |                 |                           |                                   |                 |                           |
|---|--|-----------------------------------|-----------------|---------------------------|-----------------------------------|-----------------|---------------------------|
|   | At<br>December 31,<br>2020<br>Yield/Rate | 2020                              |                 |                           | 2019                              |                 |                           |
|   |  | Average<br>Outstanding<br>Balance | Interest        | Average<br>Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest        | Average<br>Yield/<br>Rate |
| (Dollars in thousands)  |  |                                   |                 |                           |                                   |                 |                           |
| <b>Interest earning assets:</b>   |  |                                   |                 |                           |                                   |                 |                           |
| Loans   | 4.27%                                    | \$ 163,182                        | \$ 7,790        | 4.77%                     | \$ 145,827                        | \$ 7,293        | 5.00%                     |
| Interest-bearing deposits in other banks                                | 0.10%                                    | 24,586                            | 38              | 0.15%                     | 13,322                            | 281             | 2.11%                     |
| Time deposits in other banks  | 2.92%                                    | 7,190                             | 208             | 2.89%                     | 8,193                             | 233             | 2.84%                     |
| Investment securities   | 2.84%                                    | 23,040                            | 707             | 3.07%                     | 39,957                            | 1,215           | 3.04%                     |
| Federal Home Loan Bank stock  | 4.38%                                    | 524                               | 23              | 4.39%                     | 272                               | 17              | 6.25%                     |
| Total interest-earning assets   |  | 218,522                           | 8,766           | 4.01%                     | 207,571                           | 9,039           | 4.35%                     |
| Non-interest-earning assets   |  | 13,157                            |                 |                           | 10,470                            |                 |                           |
| Total assets  |  | <u>\$ 231,679</u>                 |                 |                           | <u>\$ 218,041</u>                 |                 |                           |
| <b>Interest bearing liabilities:</b>                                    |  |                                   |                 |                           |                                   |                 |                           |
| Interest-bearing demand   | 0.17%                                    | \$ 24,376                         | 42              | 0.17%                     | \$ 24,104                         | 69              | 0.29%                     |
| Money market  | 0.20%                                    | 10,128                            | 21              | 0.21%                     | 10,650                            | 22              | 0.21%                     |
| Savings   | 0.05%                                    | 26,104                            | 13              | 0.05%                     | 24,632                            | 12              | 0.05%                     |
| Certificates of deposit   | 1.61%                                    | 78,950                            | 1,338           | 1.69%                     | 77,258                            | 1,299           | 1.68%                     |
| Total deposits  |  | 139,558                           | 1,414           | 1.01%                     | 136,644                           | 1,402           | 1.03%                     |
| Borrowed funds  | 0.95%                                    | 7,690                             | 66              | 0.86%                     | 103                               | 2               | 1.79%                     |
| Total interest-bearing liabilities                                      |  | 147,248                           | 1,480           | 1.01%                     | 136,747                           | 1,404           | 1.03%                     |
| Non-interest-bearing liabilities  |  | 29,616                            |                 |                           | 20,566                            |                 |                           |
| Total liabilities   |  | 176,864                           |                 |                           | 157,313                           |                 |                           |
| Stockholders' equity  |  | 54,815                            |                 |                           | 60,728                            |                 |                           |
| Total liabilities and stockholders' equity                              |  | <u>\$ 231,679</u>                 |                 |                           | <u>\$ 218,041</u>                 |                 |                           |
| Net interest income   |  |                                   | <u>\$ 7,286</u> |                           |                                   | <u>\$ 7,635</u> |                           |
| Interest rate spread <sup>(1)</sup>                                     |  |                                   |                 | 3.01%                     |                                   |                 | 3.33%                     |
| Net interest-earning assets <sup>(2)</sup>                              |  | <u>\$ 71,274</u>                  |                 |                           | <u>\$ 70,824</u>                  |                 |                           |
| Net interest margin <sup>(3)</sup>                                      |  |                                   |                 | 3.33%                     |                                   |                 | 3.68%                     |
| Average interest-earning assets to average-interest bearing liabilities |  | 148.40%                           |                 |                           | 151.79%                           |                 |                           |

(1) Interest rate spread represents the difference between average yield on average interest-earning assets and average cost of average interest-bearing liabilities.

(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average interest-earning assets.

**For the Years Ended December 31,**

|   | 2018                              |                 |                           | 2017                              |                 |                           | 2016                              |                 |                           |
|---|-----------------------------------|-----------------|---------------------------|-----------------------------------|-----------------|---------------------------|-----------------------------------|-----------------|---------------------------|
|   | Average<br>Outstanding<br>Balance | Interest        | Average<br>Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest        | Average<br>Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest        | Average<br>Yield/<br>Rate |
|   | (Dollars in thousands)            |                 |                           |                                   |                 |                           |                                   |                 |                           |
| <b>Interest earning assets:</b>   |                                   |                 |                           |                                   |                 |                           |                                   |                 |                           |
| Loans   | \$ 140,958                        | \$ 6,767        | 4.80%                     | \$ 139,013                        | \$ 6,470        | 4.65%                     | \$ 119,794                        | \$ 5,696        | 4.75%                     |
| Federal funds sold and interest-bearing deposits in other banks         | 22,933                            | 432             | 1.88%                     | 10,643                            | 108             | 1.01%                     | 19,976                            | 99              | 0.50%                     |
| Time deposits in other banks  | 4,919                             | 99              | 2.01%                     | 5,785                             | 76              | 1.31%                     | 5,018                             | 66              | 1.32%                     |
| Investment securities   | 14,318                            | 389             | 2.72%                     | 10,494                            | 263             | 2.51%                     | 10,039                            | 294             | 2.93%                     |
| Federal Home Loan Bank stock  | 245                               | 15              | 6.12%                     | 249                               | 12              | 4.82%                     | 153                               | 9               | 5.88%                     |
| Total interest-earning assets   | 183,373                           | 7,702           | 4.20%                     | 166,184                           | 6,929           | 4.17%                     | 154,980                           | 6,164           | 3.98%                     |
| Non-interest-earning assets   | 9,657                             |                 |                           | 13,223                            |                 |                           | 18,178                            |                 |                           |
| Total assets  | <u>\$ 193,030</u>                 |                 |                           | <u>\$ 179,407</u>                 |                 |                           | <u>\$ 173,158</u>                 |                 |                           |
| <b>Interest bearing liabilities:</b>                                    |                                   |                 |                           |                                   |                 |                           |                                   |                 |                           |
| Interest-bearing demand   | \$ 24,725                         | 57              | 0.23%                     | \$ 24,035                         | 54              | 0.22%                     | \$ 22,228                         | 50              | 0.22%                     |
| Money market  | 12,629                            | 26              | 0.21%                     | 13,556                            | 28              | 0.21%                     | 14,000                            | 29              | 0.21%                     |
| Savings   | 24,939                            | 12              | 0.05%                     | 24,226                            | 12              | 0.05%                     | 22,041                            | 11              | 0.05%                     |
| Certificates of deposit   | 76,041                            | 883             | 1.16%                     | 75,031                            | 697             | 0.93%                     | 74,808                            | 654             | 0.87%                     |
| Total deposits  | 138,334                           | 978             | 0.71%                     | 136,848                           | 791             | 0.58%                     | 133,077                           | 744             | 0.56%                     |
| Borrowed funds  | -                                 | -               | -                         | 1,584                             | 20              | 1.26%                     | -                                 | -               | -                         |
| Total interest-bearing liabilities                                      | 138,334                           | 978             | 0.71%                     | 138,432                           | 811             | 0.59%                     | 133,077                           | 744             | 0.56%                     |
| Non-interest-bearing liabilities  | 22,573                            |                 |                           | 18,943                            |                 |                           | 18,424                            |                 |                           |
| Total liabilities   | 160,907                           |                 |                           | 157,375                           |                 |                           | 151,501                           |                 |                           |
| Stockholders' equity  | 32,123                            |                 |                           | 22,032                            |                 |                           | 21,657                            |                 |                           |
| Total liabilities and stockholders' equity                              | <u>\$ 193,030</u>                 |                 |                           | <u>\$ 179,407</u>                 |                 |                           | <u>\$ 173,158</u>                 |                 |                           |
| Net interest income   |                                   | <u>\$ 6,724</u> |                           |                                   | <u>\$ 6,118</u> |                           |                                   | <u>\$ 5,420</u> |                           |
| Interest rate spread <sup>(1)</sup>                                     |                                   |                 | 3.49%                     |                                   |                 | 3.58%                     |                                   |                 | 3.42%                     |
| Net interest-earning assets <sup>(2)</sup>                              | <u>\$ 45,039</u>                  |                 |                           | <u>\$ 27,752</u>                  |                 |                           | <u>\$ 21,903</u>                  |                 |                           |
| Net interest margin <sup>(3)</sup>                                      |                                   |                 | 3.67%                     |                                   |                 | 3.68%                     |                                   |                 | 3.50%                     |
| Average interest-earning assets to average-interest bearing liabilities | 132.56%                           |                 |                           | 120.05%                           |                 |                           | 116.46%                           |                 |                           |

(1) Interest rate spread represents the difference between average yield on average interest-earning assets and average cost of average interest-bearing liabilities.

(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average interest-earning assets.

## Rate/Volume Analysis

The following table presents the effects of changing interest rates and volumes on our net interest income for the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

|  | Years Ended December 31,<br>2020 vs 2019 |          |                                 | Years Ended December 31,<br>2019 vs 2018 |        |                                 |
|--|--|----------|---------------------------------|--|--------|---------------------------------|
|  | Increase (Decrease)<br>Due to            |          | Total<br>Increase<br>(Decrease) | Increase (Decrease)<br>Due to            |        | Total<br>Increase<br>(Decrease) |
|  | Volume                                   | Rate     |                                 | Volume                                   | Rate   |                                 |
|  | (In thousands)                           |          |                                 |  |        |                                 |
| <b>Interest-earning assets:</b>          |  |          |                                 |  |        |                                 |
| Loans                                    | \$ 848                                   | \$ (351) | \$ 497                          | \$ 239                                   | \$ 287 | \$ 526                          |
| Interest-bearing deposits in other banks | 126                                      | (369)    | (243)                           | (193)                                    | 42     | (151)                           |
| Time deposits in other banks             | (28)                                     | 4        | (24)                            | 80                                       | 54     | 134                             |
| Investment securities                    | (475)                                    | (33)     | (508)                           | 739                                      | 87     | 826                             |
| Federal Home Loan Bank stock             | 13                                       | (7)      | 6                               | 2  | -      | 2                               |
| Total interest-earning assets            | 484                                      | (756)    | (272)                           | 867                                      | 470    | 1,337                           |
| <b>Interest-bearing liabilities:</b>     |  |          |                                 |  |        |                                 |
| Interest-bearing demand                  | 1  | (28)     | (27)                            | (2)                                      | 14     | 12                              |
| Money market                             | (1)                                      | -        | (1)                             | (4)                                      | -      | (4)                             |
| Savings                                  | 1  | -        | 1                               | -  | -      | -                               |
| Certificates of deposit                  | 28                                       | 11       | 39                              | 17                                       | 399    | 416                             |
| Borrowed funds                           | 106                                      | (42)     | 64                              | 2  | -      | 2                               |
| Total interest-bearing liabilities       | 135                                      | (59)     | 76                              | 13                                       | 413    | 426                             |
| Change in net interest income            | \$ 349                                   | \$ (697) | \$ (348)                        | \$ 854                                   | \$ 57  | \$ 911                          |

## Comparison of Operating Results for the Years Ended December 31, 2020 and 2019

**General.** Net income was \$943,000 for the year ended December 31, 2020 compared to \$908,000 for the year ended December 31, 2019. The increase was due to several factors including an increase in non-interest income of \$1.0 million to \$1.6 million for the year ended December 31, 2020 from \$592,000 for the year ended December 31, 2019, an increase in provision for loan losses of \$175,000 to \$350,000 for the year ended December 31, 2020 from \$175,000 for the year ended December 31, 2019, offset by decrease in net interest income of \$349,000, or 4.59%, to \$7.3 million for the year ended December 31, 2020 from \$7.6 million for the year ended December 31, 2019 and an increase in non-interest expense of \$372,000, or 5.47%, to \$7.1 million for the year ended December 31, 2020 from \$6.8 million for the year ended December 31, 2019.

**Interest Income.** Interest and dividend income decreased \$234,000, or 2.60%, to \$8.8 million for the year ended December 31, 2020 from \$9.0 million for the year ended December 31, 2019. The decrease in interest income was due to a decrease in the average yield on interest-earning assets for the year ended December 31, 2020 compared to the average yield on interest-earning assets for the year ended December 31, 2019 offset by an increase in the average interest-earning assets for year ended December 31, 2020 compared to the average interest-earning assets for the year ended December 31, 2019.

Interest income on loans increased \$497,000, or 6.81%, to \$7.8 million for the year ended December 31, 2020 from \$7.3 million for the year end December 31, 2019. The increase was primarily due to an increase in the average balance of our loans offset by a decrease in the average yield of our loans, which is our primary source of interest income. The average balances of loans increased \$17.4 million, or 11.93%, to \$163.2 million for the year ended December 31, 2020 compared to \$145.8 million for the year ended December 31, 2019. Our average yield on loans decreased 23 basis points to 4.77% for the year ended December 31, 2020 from 5.00% for the year ended December 31, 2019, as higher-yielding loans have been repaid or refinanced and replaced with lower-yielding loans due to the current rate environment, as well as our origination of lower yielding PPP loans. As of December 31, 2020, we had originated \$8.6 million in PPP loans at an interest rate of 1.00%. The rate did not include deferred fees of approximately \$245,000 that would be amortized and recorded as an increase in loan

income over the life of the loan. For the year ended December 31, 2020, we had recorded an increase in loan income relating the amortization of PPP deferred fees of approximately \$186,000.

Interest and dividends on investments includes the interest income received on interest-bearing deposits in other banks, time deposits in other banks and investment securities. Interest on dividends and investments decreased \$770,000, or 45.29%, to \$1.0 million for the year ended December 31, 2020 from \$1.7 million for the year ended December 31, 2019 and is discussed in detail below.

Interest income on interest-bearing deposits in other banks decreased \$243,000, or 86.48%, to \$38,000 for the year ended December 31, 2020 from \$281,000 for the year ended December 31, 2019. The decrease in interest income on interest-bearing deposits in other banks was the result of a decrease in the average yield offset by an increase in the average balances. The average yield we earned on interest-bearing deposits in other banks decreased 196 basis points to 0.15% for the year ended December 31, 2020 from 2.11% for the year ended December 31, 2019 primarily due to our interest-bearing deposits in other banks repricing due to federal funds rate decreases during the year ended December 31, 2020. The average balance on interest-bearing deposits in other banks increased \$11.3 million to \$24.6 million for the year ended December 31, 2020 from \$13.3 million for the year ended December 31, 2019. The increase in interest-bearing deposits in other banks was primarily the result of a decrease in investment securities due to sales, calls and maturities and an increase in deposits and borrowings during the year ended December 31, 2020.

Interest income on time deposits in other banks decreased \$25,000, or 10.73%, to \$208,000 for the year ended December 31, 2020 from \$233,000 for the year ended December 31, 2019. The decrease in interest income on time deposits in other banks was the result of a decrease in the average balance on time deposits. The average balance on time deposits in other banks decreased \$1.0 million, or 12.20%, to \$7.2 million for the year ended December 31, 2020 from \$8.2 million for the year ended December 31, 2019. The average yield we earned on time deposits in other banks increased five basis points to 2.89% for the year ended December 31, 2020 from 2.84% for the year ended December 31, 2019, reflecting calls and maturities of lower yielding time deposits in other banks.

Interest income on investment securities decreased \$508,000, or 42.33%, to \$707,000 for the year ended December 31, 2020 from \$1.2 million for the year ended December 31, 2019. The decrease in interest income on investment securities was primarily the result of a decrease in the average balances in investment securities due to sales, calls and maturities offset by a slight increase in the average yield we earned on investment securities. The average balance on investment securities decreased \$17.0 million, or 42.50%, to \$23.0 million for the year ended December 31, 2020 from \$40.0 million for the year ended December 31, 2019 and was driven primarily by the sale of municipal securities and residential mortgage backed securities in the amount of \$7.3 million and calls and principal repayments from our investment portfolio of \$13.6 million during the year ended December 31, 2020. The average rate we earned on investment securities increased three basis points to 3.07% for the year ended December 31, 2020 from 3.04% for the year ended December 31, 2019 reflecting sales, calls and maturities of lower yielding investment securities.

**Interest Expense.** Interest expense increased \$76,000, or 5.43%, to \$1.5 million for the year ended December 31, 2020 from \$1.4 million for the year ended December 31, 2019. The increase was the result of an increase of \$12,000 in interest expense paid on deposits and an increase of \$64,000 in interest paid on borrowings from the Federal Home Loan Bank. The increase in interest expense paid on deposits was primarily due to an increase in the average balance of interest-bearing deposits offset by a slight decrease in the average rate paid on interest-bearing deposits. Our average balance of interest-bearing deposits increased \$3.0 million, or 2.20%, to \$139.6 million for the year ended December 31, 2020 from \$136.6 million for the year ended December 31, 2019. Our average rate paid on interest-bearing deposits decreased two basis points to 1.01% for the year ended December 31, 2020 from 1.03% for the year ended December 31, 2019. Our average borrowings with the Federal Home Loan Bank increased to \$7.7 million for the year ended December 31, 2020 from \$103,000 for the year ended December 31, 2019. The average rate paid on the borrowings was 0.86% for the year ended December 31, 2020 compared to 1.94% for the year ended December 31, 2019.

**Net Interest Income.** Net interest income decreased \$349,000, or 4.59%, to \$7.3 million for the year ended December 31, 2020 from \$7.6 million for the year ended December 31, 2019. The decrease was primarily the result of lower net interest spread and net interest margin offset by a slight increase in our net-interest earning assets. Our net interest rate spread decreased by 32 basis points to 3.01% for the year ended December 31, 2020 from 3.33% for the year ended December 31, 2019 and our net interest margin decreased 35 basis points to 3.33% for the year ended December 31, 2020 from 3.68% for the year ended December 31, 2019. Our average net-interest earning assets, which represents total interest-earning assets, less total interest-bearing liabilities, increased slightly to \$71.3 million at December 31, 2020 from \$70.8 million at December 31, 2019.

**Provisions for Loan Losses.** Provisions for loan losses are charged to operations to establish and allowance for loan losses at a level necessary to absorb known and inherent losses in our loan portfolio that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management analyzes several qualitative loan portfolio risk factors, including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. The allowance for loan losses is assessed on a quarterly basis and provisions are made for loan losses as required in order to maintain the allowance.

Provision for loan losses increased by \$175,000, or 100.00%, to \$350,000 for the year ended December 31, 2020 from a provision for loan losses for the year ended December 31, 2019 of \$175,000. We recorded net charge-offs of \$2,000 for the year ended December 31, 2020 compared to net recoveries of \$16,000 for the year ended December 31, 2019. Non-performing loans totaled \$188,000 for the year ended December 31, 2020 compared to \$490,000 at December 31, 2019. The decrease of \$302,000 in non-performing loans was primarily the result of a decrease of \$150,000 in non-performing one-to four-family residential loans, a decrease of \$76,000 in non-performing home equity loans and lines of credit and decrease of \$76,000 in nonresidential loans. Our non-performing loans to total loans decreased to 0.12% at December 31, 2020 from 0.31% at December 31, 2019. The increase in the provision for loan losses was necessary due to an increase in our qualitative factors, such as current economic conditions, the adequacy of underlying collateral and the financial strength of our borrowers affected by the COVID-19 pandemic. We have provided for losses that are probable and reasonably estimable at December 31, 2020.

**Non-interest Income.** Non-interest income increased by \$982,000 to \$1.6 million for the year ended December 31, 2020 from \$592,000 for the year ended December 31, 2019. The increase was primarily due to an increase of \$863,000 in gain on sale of loans to \$1.1 million for the year ended December 31, 2020 compared to \$215,000 for the year ended December 31, 2019 primarily as a result of the increase in refinancing in the residential mortgage market due to the lower rate environment and the gain recorded on the sale of investment securities of \$143,000 during the year ended December 31, 2020.

**Non-interest Expense.** Non-interest expense increased by \$372,000, or 5.47%, to \$7.1 million for the year ended December 31, 2020 from \$6.8 million for the year ended December 31, 2019. Salaries, director fees and employee benefits increased \$463,000, or 11.02%, to \$4.7 million for the year ended December 31, 2020 from \$4.2 million for the year ended December 31, 2019 primarily due to an increase of \$280,000 in stock-based compensation to \$712,000 for the year ended December 2020 compared to \$432,000 for the year ended December 31, 2019 relating to the 2019 Equity Incentive Plan which was approved in May 2019, as well as commissions paid to loan officers for the increase in loans originated for sale. Professional and legal fees decreased \$44,000, or 8.03%, to \$504,000 for the year ended December 31, 2020 from \$548,000 for the year ended December 31, 2019 primarily due to lower levels of consulting expenses relating to the Company's public status during the year ended December 31, 2020 compared to December 31, 2019, decreased legal fee expenses relating to past due loan relationships that were resolved during 2019, offset by increased consulting fees relating to information technology system enhancements. Marketing expenses decreased \$49,000, or 44.95%, to \$60,000 for the year ended December 31, 2020 from \$109,000 for the year ended December 31, 2019 due to reductions in marketing outlays during the year ended December 31, 2020. The provision for losses and costs on foreclosed real estate increased \$49,000 to \$85,000 for the year ended December 31, 2020 from \$36,000 for the year ended December 31, 2019. This increase was primarily due to the write-down in fair value of a foreclosed real estate property in the amount of \$70,000 for the year ended December 31, 2020 compared to a write-down in fair value of a foreclosed real estate property in the amount of \$20,000 for the year ended December 31, 2019. Other operating expenses decreased by \$55,000, or 7.02%, to \$729,000 for the year ended December 31, 2020 from \$784,000 for the year ended December 31, 2019 due to several factors. Insurance costs decreased \$42,000 to \$64,000 for the year ended December 31, 2020 from \$106,000 for the year ended December 31, 2019 due to the payment of an insurance deductible associated with an email compromise that occurred during the fourth quarter of 2019 for which we have no further material financial exposure. Other organizational expenses decreased \$41,000, or 48.81%, to \$43,000 for the year ended December 31, 2020 from \$84,000 for the year ended December 31, 2019 due to reduced branch and personnel activities primarily the result of the COVID-19 pandemic. The decreases in other operating expenses were offset by increases in software maintenance costs of \$31,000, or 30.39%, to \$133,000 for the year ended December 31, 2020 from \$102,000 for the year ended December 31, 2019 primarily due to the software necessary to provide information system technology enhancements.

**Income Tax Expense.** Income tax expense increased by \$51,000, or 13.86%, to \$419,000 for the year ended December 31, 2020 from \$368,000 for the year ended December 31, 2019. The effective tax rate was 30.76% and 28.84% for the years ended December 31, 2020 and 2019, respectively. The increase in tax expense was the result of an increase in our pre-tax income of \$86,000, or 6.74%, to \$1.4 million for the year ended December 31, 2020 from \$1.3 million for the year ended December 31, 2019, as well as an increase in the effective tax rate due to the increase in non-deductible compensation expense relating to the ESOP and the 2019 Equity Incentive Plan.

## Management of Market Risk

Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset Liability Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling solution that is prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk:

- sell a portion of our newly originated long-term, fixed-rate one-to four-family residential real estate loans;
- increase nonresidential real estate lending with shorter repricing terms;
- promote our core deposit accounts;
- reduce our reliance on higher costing certificates of deposit; and
- maintain a strong capital position.

By following these strategies, we believe that we will be better positioned to react to increases in market interest rates.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateral mortgage obligation residual interests, real estate mortgage investment conduit residential interests or stripped mortgage backed securities.

**Net Interest Income.** We analyze our sensitivity to changes in interest rates through a net interest income model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under different interest rate assumptions. These estimates require certain assumptions to be made, including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturity and decay rates. These assumptions are inherently uncertain. As a result, no simulation model can precisely predict the impact of changes in interest rates on our net interest income.

The table below sets forth, as of December 31, 2020, the calculation of the estimated changes in our net interest income that would result from changes in market interest rates.

| <b>Basis Point Change in<br/>Interest Rates</b> | <b>Net Interest Income<br/>Year 1 Forecast</b> | <b>Year 1 Change<br/>From Level</b> |
|---|--|-------------------------------------|
|   | <b>(Dollars in thousands)</b>                  |                                     |
| +400  | \$ 6,813                                       | 16.82%                              |
| +300  | 6,568  | 12.62%                              |
| +200  | 6,324  | 8.44%                               |
| +100  | 6,078  | 4.22%                               |
| Level   | 5,832  | -                                   |
| -50   | 5,684  | -2.53%                              |

**Economic Value of Equity.** We analyze the sensitivity of our financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between predicted changes in the fair value of our assets and predicted changes in the present value of our liabilities assuming various changes in current interest rates. The table below represents an analysis of our interest rate risk as measured by the estimated changes in our economic value of equity, resulting from an instantaneous and sustained parallel shift in the yield curve at December 31, 2020.

| Basis Point<br>Change in<br>Interest Rates <sup>(1)</sup> | Estimated<br>EVE <sup>(2)</sup> | Estimated Increase<br>(Decrease) EVE |         | EVE as a Percentage of Fair<br>Value of Assets <sup>(3)</sup> |  |
|---|---------------------------------|--------------------------------------|---------|---|--|
|   |                                 | Amount                               | Percent | EVE<br>Ratio <sup>(4)</sup>                                   | Increase<br>(Decrease)<br>Basis Points |
| (Dollars in thousands)                                    |                                 |                                      |         |   |  |
| +400  | \$ 51,463                       | \$ (12,364)                          | -19.37% | 24.05%  | (177)                                  |
| +300  | 55,197                          | (8,630)                              | -13.52% | 24.91%  | (91)                                   |
| +200  | 58,609                          | (5,217)                              | -8.17%  | 25.52%  | (30)                                   |
| +100  | 61,094                          | (2,733)                              | -4.28%  | 25.68%  | (14)                                   |
| Level   | 63,827                          | -                                    | -       | 25.82%  | -                                      |
| -50   | 61,920                          | 1,654                                | -2.99%  | 24.73%  | (109)                                  |

(1) Assumes an immediate uniform change in interest rates at all maturities.

(2) EVE is the fair value of expected cash flows from assets, less fair value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts.

(3) Fair value of assets represents the amount at which an asset could be exchanged between knowledgeable and willing parties in an arms-length transaction.

(4) EVE Ratio represents EVE divided by the fair value of assets.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and economic value of equity tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and economic value of equity tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and economic value of equity and will differ from actual results. Furthermore, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. In the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed.

## Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to funds current and planned expenditures. Our primary sources of funds are deposits and, principal and interest payments on loans and securities. We also have the ability to borrow funds from the Federal Home Loan Bank of Atlanta, and we have credit availability with a correspondent bank. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The board of directors is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of December 31, 2020.

We monitor and adjust our investments in liquid assets based upon our assessments of: (1) expected loan demand; (2) expected deposit flows; (3) yields available on interest-earning deposits and investment securities; and (4) the objectives of our asset liability management program. Excess liquid assets are invested generally in interest-earning deposits and short and intermediate securities.

Our most liquid assets are cash and cash equivalents, which include interest-bearing deposits in other banks. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2020, cash and cash equivalents totaled \$47.6 million, which included, \$799,000 in cash and due from banks and interest-bearing deposits in other banks of \$46.8 million. Time deposits in other banks and securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$6.5 million and \$16.5 million, respectively at December 31, 2020.



Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash (used in) provided by operating activities was \$(2.5) million and \$534,000 for the years ended December 31, 2020 and 2019, respectively. Net cash provided by (used in) investing activities, which consists primarily of disbursements for loan originations and the purchases of securities, offset by principal collections on loans, proceeds from maturing and sold securities and pay-downs on mortgage-backed securities was \$31.9 million and \$(16.0) million for the years ended December 31, 2020 and 2019, respectively. Net cash provided by financing activities, consisting of activities in deposit accounts and borrowings, as well as proceeds from our stock offering in 2018, offset by the repurchase of common stock and cash dividends paid on common stock was \$12.1 million and \$2.6 million for the years ended December 31, 2020 and 2019, respectively.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of December 31, 2020 totaled \$35.7 million, or 20.42% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

We are subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2020, the Bank exceeded all regulatory capital requirements and was considered “well capitalized” under regulatory guidelines.

### **Off-Balance Sheet Arrangements**

As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At December 31, 2020, we had outstanding commitments to originate loans of \$19.1 million. We anticipate that we will have sufficient funds available to meet our current lending commitments. Certificates of deposit that are scheduled to mature in less than one year from December 31, 2020 total \$35.7 million. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize Federal Home Loan Bank advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

### **Recent Accounting Pronouncements**

See Note 1 to the consolidated financial statements years ended December 31, 2020 and 2019 beginning on page F-1 for a description of recent accounting pronouncements that may affect our consolidated financial condition and consolidated results of operations.

### **Impact of Inflation and Changing Prices**

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution’s performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is incorporated herein by reference to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation.”

### **Item 8. Financial Statements and Supplementary Data**

The Consolidated Financial Statements, including supplemental data, of CBM Bancorp, Inc. begins on page F-1 of this Annual Report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15€ promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2020. Based on that evaluation, the Company's management, including the President and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

**Management's Report on Internal Control over Financial Reporting**

The management of CBM Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Management along with the participation of our principal executive officer and principal financial officer conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020 utilizing the framework established in the *2013 Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2020 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of our registered accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the Dodd-Frank Act, which permits smaller reporting companies, such as the Company, to provide only management's report in this annual report.

/s/ Joseph M. Solomon

Joseph M. Solomon

President

Principal Executive Officer

/s/ Jodi L. Beal

Jodi L. Beal

Executive Vice President and Chief Financial Officer

Principal Financial and Accounting Officer

(c) Changes in internal controls

There were no changes made in our internal control over financial reporting during the Company's fourth quarter of the year ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

### Part III

#### Item 10. Directors, Executive Officers and Corporate Governance

CBM Bancorp has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, and principal accounting officer. A copy of the Code is available on the Company’s Internet Web site.

The information required by this item is incorporated herein by reference to the section captioned “Proposal I— Election of Directors” in the Company’s definitive Proxy Statement for the 2021 Annual Meeting of Stockholders (the “Proxy Statement”).

#### Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the section captioned “Executive Officers— Executive Compensation” in the Proxy Statement.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

##### (a) Securities Authorized for Issuance Under Stock-Based Compensation Plans

| Plan category   | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
|   | (a)   | (b)   | (c)   |
| Equity compensation plans (stock options) approved by security holders:<br>CBM Bancorp, Inc. 2019 Equity Incentive Plan (1) | 423,200   | \$ 13.21  | N/A   |
| Equity compensation plans not approved by security holders  | N/A   | N/A   | N/A   |
| <b>Total</b>  | <b>423,200</b>  | <b>\$ 13.21</b>   | <b>N/A</b>  |

<sup>(1)</sup> As of December 31, 2020, 169,320 shares of restricted stock awards had been granted under the CBM Bancorp, Inc. 2019 Equity Incentive Plan with no shares of restricted stock awards remaining available for future issuance under the CBM Bancorp, Inc. 2019 Equity Incentive Plan.

##### (b) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership— Stock Ownership of Certain Beneficial Owners” in the Proxy Statement.

##### (c) Security Ownership by Management

Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership— Stock Ownership of Management” in the Proxy Statement.

##### (d) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the section captioned “Proposal I— Election of Directors Officers — Transactions with Certain Related Persons,” “— Board Independence” and “— Meetings and Committees of the Board of Directors” in the Proxy Statement.

#### Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Proposal II— Ratification of Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement.

## Part IV

### Item 15. Exhibits and Financial Statement Schedules

- (1) The financial statements required in response to this item are incorporated by reference from Item 8 of this report.
- (2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.
- (3) Exhibits
  - 3.1 Articles of Incorporation of CBM Bancorp, Inc. (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of CBM Bancorp, Inc. (File No. 333-225353) originally filed with the Securities and Exchange Commission on June 1, 2018, as amended.)
  - 3.2 Bylaws of CBM Bancorp, Inc. (Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 of CBM Bancorp, Inc. (File No. 333-225353) originally filed with the Securities and Exchange Commission on June 1, 2018, as amended.)
  - 4.1 Form of Common Stock Certificate of CBM Bancorp, Inc. (Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 of CBM Bancorp, Inc. (File No. 333-225353) originally filed with the Securities and Exchange Commission on June 1, 2018, as amended.)
  - 4.2 Description of Registrant's Securities (Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission on March 22, 2020)
  - 10.1 Employment Agreement, as amended and restated, dated as of September 30, 2020, by and between Chesapeake Bank of Maryland and William J. Bocek, Jr. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.2 Employment Agreement, as amended and restated, dated as of September 30, 2020, by and between CBM Bancorp, Inc. and William J. Bocek, Jr. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.3 Employment Agreement, as amended and restated, dated as of September 30, 2020, by and between Chesapeake Bank of Maryland and Joseph M. Solomon (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.4 Employment Agreement, as amended and restated, dated as of September 30, 2020, by and between CBM Bancorp, Inc. and Joseph M. Solomon (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.5 Employment Agreement, as amended and restated, dated as of September 30, 2020, by and between Chesapeake Bank of Maryland and Jodi L. Beal (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.6 Employment Agreement, as amended and restated, dated as of September 30, 2020, by and between CBM Bancorp, Inc. and Jodi L. Beal (Incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.7 Supplemental Executive Retirement Plan with William J. Bocek, Jr. (Incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 of CBM Bancorp, Inc. (File No. 333-225353) originally filed with the Securities and Exchange Commission on June 1, 2018, as amended.)
  - 10.8 2020 Amendment to the Supplemental Executive Retirement Plan with William J Bocek, Jr. effective as of September 16, 2020 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated September 16, 2020, filed with the Securities and Exchange Commission on September 22, 2020)
  - 10.9 Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated December 19, 2018, filed with the Securities and Exchange Commission on December 26, 2018.)

- 10.10 Form of Non-Qualified Stock Option Award Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated May 21, 2020, filed with the Securities and Exchange Commission on May 28, 2020)
- 10.11 Form of Incentive Stock Option Award Agreement (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated May 21, 2020, filed with the Securities and Exchange Commission on May 28, 2020)
- 10.12 Form of Restricted Stock Award Agreement (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated May 21, 2020, filed with the Securities and Exchange Commission on May 28, 2020)
- 10.13 Form of Non-Qualified Stock Option Award Agreement for Non-Employee Director (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated May 14, 2019; filed with the Securities and Exchange Commission on May 20, 2019)
- 10.14 Form of Restricted Stock Award for Non-Employee Director (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated May 14, 2019, filed with the Securities and Exchange Commission on May 20, 2019)
- 10.15 Form of Restricted Stock Award for Officers and Employees (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K dated May 14., 2019, filed with the Securities and Exchange Commission on May 20, 2019)
- 10.16 Form of Incentive Stock Option Award Agreement for Officers and Employees (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K dated May 14, 2019, filed with the Securities and Exchange Commission on May 20, 2019)
- 10.17 Form of Non-Qualified Stock Option Agreement for Officers and Employees (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K dated May 14, 2019, filed with the Securities and Exchange Commission on May 20, 2019)
- 10.18 CBM Bancorp, Inc. 2019 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated May 2019, filed with the Securities and Exchange Commission on May 20, 2019)
- 21 Subsidiaries of CBM Bancorp, Inc. (Incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 of CBM Bancorp, Inc. (File No. 333-225353) originally filed with the Securities and Exchange Commission on June 1, 2018, as amended.)
- 23 Consent of Dixon Hughes Goodman, LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in XBRL. (Extensible Business Reporting Language). (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

**Item 16. Form 10-K Summary**

None

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### CBM Bancorp, Inc.

By: /s/ Joseph M. Solomon  
Joseph M. Solomon  
President (Principal Executive Officer)  
March 26, 2021

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signatures</u>   | <u>Title</u>  | <u>Date</u>    |
|---|---|----------------|
| <u>/s/ Joseph M. Solomon</u><br>Joseph M. Solomon           | President and Director<br>(Principal Executive Officer)   | March 26, 2021 |
| <u>/s/ Jodi L. Beal</u><br>Jodi L. Beal                     | Executive Vice President and Chief Financial<br>Officer (Principal Financial and Accounting<br>Officer) | March 26, 2021 |
| <u>/s/ William J. Bocek, Jr.</u><br>William J. Bocek, Jr.   | Chairman of the Board   | March 26, 2021 |
| <u>/s/ Francis X. Bossle, Jr.</u><br>Francis X. Bossle, Jr. | Director  | March 26, 2021 |
| <u>/s/ Glenn C. Ercole</u><br>Glenn C. Ercole               | Director  | March 26, 2021 |
| <u>/s/ Gail E. Smith</u><br>Gail E. Smith                   | Director  | March 26, 2021 |
| <u>/s/ Benny C. Walker</u><br>Benny C. Walker               | Director  | March 26, 2021 |
| <u>/s/ William W. Whitty, Jr.</u><br>William W. Whitty, Jr. | Director  | March 26, 2021 |

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## Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors  
CBM Bancorp, Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of CBM Bancorp, Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Dixon Hughes Goodman LLP*

**We have served as the Company's auditor since 2017.**

Richmond, VA  
March 26, 2021

DHG is registered in the U.S. Patent and Trademark Office to Dixon Hughes Goodman LLP.



**CBM Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**December 31, 2020 and 2019**

|  | <b>December 31,<br/>2020</b> | <b>December 31,<br/>2019</b> |
|--|------------------------------|------------------------------|
| <b>Assets</b>  |                              |                              |
| Cash and due from banks  | \$ 799,120                   | \$ 787,050                   |
| Interest-bearing deposits in other banks   | 46,808,842                   | 5,200,071                    |
|  | 47,607,962                   | 5,987,121                    |
| Cash and cash equivalents  |                              |                              |
| Time deposits in other banks   | 6,477,853                    | 7,935,811                    |
| Securities available for sale, at fair value   | 16,543,524                   | 37,090,591                   |
| Federal Home Loan Bank stock, at cost  | 410,900                      | 300,400                      |
| Loans held for sale  | 6,073,782                    | 1,730,430                    |
| Loans, net of unearned fees  | 150,305,998                  | 159,624,611                  |
| Allowance for loan losses  | (1,727,216)                  | (1,379,150)                  |
| Net loans  | 148,578,782                  | 158,245,461                  |
| Accrued interest receivable  | 605,333                      | 655,146                      |
| Bank-owned life insurance  | 4,831,457                    | 4,723,825                    |
| Premises and equipment, net  | 1,753,608                    | 1,828,666                    |
| Foreclosed real estate   | 775,000                      | 845,000                      |
| Deferred income taxes  | 856,005                      | 724,658                      |
| Prepaid expenses and other assets  | 319,397                      | 334,470                      |
|  | 234,803,603                  | 220,401,579                  |
| <b>Total assets</b>  | <b>\$ 234,803,603</b>        | <b>\$ 220,401,579</b>        |
| <b>Liabilities and Stockholders' Equity</b>  |                              |                              |
| <b>Liabilities</b>   |                              |                              |
| Noninterest-bearing deposits   | \$ 32,650,939                | \$ 19,780,866                |
| Interest-bearing deposits  | 142,129,183                  | 136,660,007                  |
| Total deposits   | 174,780,122                  | 156,440,873                  |
| Advances by borrowers for taxes and insurance  | 431,089                      | 538,516                      |
| Federal Home Loan Bank advances  | 5,000,000                    | 2,500,000                    |
| Accounts payable and other liabilities   | 1,029,677                    | 986,814                      |
|  | 181,240,888                  | 160,466,203                  |
| Total liabilities  |                              |                              |
| Commitments and contingencies  |                              |                              |
| <b>Stockholders' Equity</b>  |                              |                              |
| Preferred stock, \$0.01 par value; authorized 1,000,000 shares; none issued  | -                            | -                            |
| Common stock, \$0.01 par value; authorized 24,000,000 shares; issued and outstanding 3,690,633 shares at December 31, 2020 and 4,208,505 shares at December 31, 2019 | 36,906                       | 42,085                       |
| Additional paid in capital   | 34,735,278                   | 41,210,056                   |
| Retained earnings  | 22,397,154                   | 23,243,847                   |
| Unearned common stock held by:   |                              |                              |
| Employee Stock Ownership Plan  | (2,369,920)                  | (2,708,480)                  |
| 2019 Equity Incentive Plan   | (1,908,570)                  | (2,357,994)                  |
| Accumulated other comprehensive income   | 671,867                      | 505,862                      |
|  | 53,562,715                   | 59,935,376                   |
| Total stockholders' equity   |                              |                              |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 234,803,603</b>        | <b>\$ 220,401,579</b>        |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**CBM Bancorp, Inc.**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2020 and 2019**

|  | <b>For the Years Ended December 31,</b> |                   |
|--|---|-------------------|
|  | <b>2020</b>                             | <b>2019</b>       |
| <b>Interest and dividend income</b>                      |   |                   |
| Interest and fees on loans                               | \$ 7,790,136                            | \$ 7,292,886      |
| Interest and dividends on investments                    | 976,096                                 | 1,746,375         |
| Total interest and dividend income                       | <u>8,766,232</u>                        | <u>9,039,261</u>  |
| <b>Interest expense</b>                                  |   |                   |
| Interest on deposits                                     | 1,413,710                               | 1,401,673         |
| Interest on borrowings                                   | 66,031                                  | 1,874             |
| Total interest expense                                   | <u>1,479,741</u>                        | <u>1,403,547</u>  |
| Net interest income                                      | 7,286,491                               | 7,635,714         |
| <b>Provision for loan losses</b>                         | <u>350,000</u>                          | <u>175,000</u>    |
| Net interest income after provision for loan losses      | <u>6,936,491</u>                        | <u>7,460,714</u>  |
| <b>Non-interest income</b>                               |   |                   |
| Service fees on deposit accounts                         | 111,692                                 | 128,732           |
| Income from bank-owned life insurance                    | 107,632                                 | 114,468           |
| Gain on sale of loans held for sale                      | 1,077,913                               | 215,436           |
| Gain on sale of investment securities                    | 143,223                                 | -                 |
| Other non-interest income                                | 133,431                                 | 133,351           |
| Total non-interest income                                | <u>1,573,891</u>                        | <u>591,987</u>    |
| <b>Non-interest expense</b>                              |   |                   |
| Salaries, director fees and employee benefits            | 4,679,358                               | 4,216,292         |
| Premises and equipment                                   | 429,545                                 | 429,783           |
| Data processing  | 574,371                                 | 557,889           |
| Professional fees  | 504,374                                 | 548,164           |
| FDIC premiums and regulatory assessments                 | 85,825                                  | 95,314            |
| Marketing  | 60,058                                  | 108,574           |
| Provision for losses and costs on foreclosed real estate | 85,299                                  | 36,216            |
| Other operating expenses                                 | 729,444                                 | 784,487           |
| Total non-interest expense                               | <u>7,148,274</u>                        | <u>6,776,719</u>  |
| Income before income taxes                               | 1,362,108                               | 1,275,982         |
| <b>Income tax expense</b>                                | <u>419,551</u>                          | <u>368,269</u>    |
| <b>Net income</b>  | <u>\$ 942,557</u>                       | <u>\$ 907,713</u> |
| <b>Earnings per common share</b>                         |   |                   |
| Basic  | \$ 0.26                                 | \$ 0.23           |
| Diluted  | \$ 0.26                                 | \$ 0.23           |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**CBM Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**For the Years Ended December 31, 2020 and 2019**

|  | <b>For the Years Ended December 31,</b> |              |
|--|---|--------------|
|  | <b>2020</b>                             | <b>2019</b>  |
| <b>Net income</b>  | \$ 942,557                              | \$ 907,713   |
| <b>Other comprehensive income</b>  |   |              |
| Unrealized gain on investment securities available for sale  | 372,251                                 | 658,982      |
| Reclassification adjustment for realized gain on investment securities available for sale included in net income | (143,223)                               | -            |
| Total unrealized gain on investments securities available for sale   | 229,028                                 | 658,982      |
| Income tax expense relating to investment securities available for sale  | (63,023)                                | (181,335)    |
| Other comprehensive income   | 166,005                                 | 477,647      |
| <b>Total comprehensive income</b>  | \$ 1,108,562                            | \$ 1,385,360 |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**CBM Bancorp, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**Years Ended December 31, 2020 and 2019**

|   | Common<br>Stock  | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Unearned<br>ESOP<br>Shares | Unearned<br>RSA Shares | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|---|------------------|----------------------------------|----------------------|----------------------------|------------------------|---|----------------------------------|
| <b>Balance, January 1, 2019</b>                           | \$ 42,320        | \$ 40,987,146                    | \$ 22,336,134        | \$(3,047,040)              | \$ -                   | \$ 28,215                                       | \$ 60,346,775                    |
| Net income  | -                | -                                | 907,713              | -                          | -                      | -   | 907,713                          |
| Other comprehensive income                                | -                | -                                | -                    | -                          | -                      | 477,647   | 477,647                          |
| ESOP shares committed to be released                      | -                | 123,574                          | -                    | 338,560                    | -                      | -   | 462,134                          |
| Repurchase of common stock for 2019 Equity Incentive Plan | -                | -                                | -                    | -                          | (2,357,994)            | -   | (2,357,994)                      |
| Stock based compensation                                  | -                | 431,646                          | -                    | -                          | -                      | -   | 431,646                          |
| Repurchase of common stock                                | (235)            | (332,310)                        | -                    | -                          | -                      | -   | (332,545)                        |
| <b>Balance, December 31, 2019</b>                         | <b>\$ 42,085</b> | <b>\$ 41,210,056</b>             | <b>\$ 23,243,847</b> | <b>\$(2,708,480)</b>       | <b>\$ (2,357,994)</b>  | <b>\$ 505,862</b>                               | <b>\$ 59,935,376</b>             |
| Net income  | -                | -                                | 942,557              | -                          | -                      | -   | 942,557                          |
| Other comprehensive income                                | -                | -                                | -                    | -                          | -                      | 166,005   | 166,005                          |
| Cash dividends \$0.50 per share                           | -                | -                                | (1,789,250)          | -                          | -                      | -   | (1,789,250)                      |
| ESOP shares committed to be released                      | -                | 95,812                           | -                    | 338,560                    | -                      | -   | 434,372                          |
| Vesting of restricted stock awards                        | -                | (449,424)                        | -                    | -                          | 449,424                | -   | -                                |
| Stock based compensation                                  | -                | 711,556                          | -                    | -                          | -                      | -   | 711,556                          |
| Repurchase of common stock                                | (5,179)          | (6,832,722)                      | -                    | -                          | -                      | -   | (6,837,901)                      |
| <b>Balance December 31, 2020</b>                          | <b>\$ 36,906</b> | <b>\$ 34,735,278</b>             | <b>\$ 22,397,154</b> | <b>\$(2,369,920)</b>       | <b>\$ (1,908,570)</b>  | <b>\$ 671,867</b>                               | <b>\$ 53,562,715</b>             |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**CBM Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

|   | <b>For the Years Ended December 31,</b> |                     |
|---|---|---------------------|
|   | <b>2020</b>                             | <b>2019</b>         |
| <b>Cash flows from operating activities:</b>                                      |   |                     |
| Net income  | \$ 942,557                              | \$ 907,713          |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                     |
| Amortization and accretion of securities  | 51,921                                  | 26,812              |
| Gain on sale of loans held for sale   | (1,077,913)                             | (215,436)           |
| Originations of loans held for sale   | (41,646,049)                            | (10,385,957)        |
| Proceeds from sales of loans held for sale  | 38,380,610                              | 9,082,070           |
| Gain on sale of investment securities   | (143,223)                               | -                   |
| Amortization of net deferred loan origination fees                                | (410,932)                               | (267,817)           |
| Provision for loan losses   | 350,000                                 | 175,000             |
| Decrease in accrued interest receivable   | 49,813                                  | 40,782              |
| Increase in cash surrender value of life insurance                                | (107,632)                               | (114,468)           |
| Depreciation and amortization   | 145,439                                 | 158,898             |
| Loss on disposal of premises and equipment  | -                                       | 1,689               |
| Loss on writedown of foreclosed real estate                                       | 70,000                                  | 20,000              |
| ESOP compensation expense   | 434,372                                 | 462,134             |
| Stock based compensation expense  | 711,556                                 | 431,646             |
| Deferred income tax benefit, net  | (194,370)                               | (4,999)             |
| Decrease in prepaid expenses and other assets                                     | 15,073                                  | 67,874              |
| Increase in accounts payable and other liabilities                                | 42,863                                  | 148,513             |
| Net cash (used in) provided by operating activities                               | <u>(2,385,915)</u>                      | <u>534,454</u>      |
| <b>Cash flows from investing activities:</b>                                      |   |                     |
| Net maturities (purchases) of time deposits in other banks                        | 1,490,000                               | (991,811)           |
| Proceeds from maturities, payments and calls of available for sale securities     | 13,552,586                              | 18,610,391          |
| Purchases of available for sale securities  | -                                       | (17,621,389)        |
| Proceeds from sales of investment securities                                      | 7,312,769                               | -                   |
| Purchases of Federal Home Loan Bank stock   | (110,500)                               | (55,200)            |
| Net decrease (increase) in loans  | 9,727,611                               | (15,832,183)        |
| Purchases of premises and equipment   | (70,381)                                | (64,735)            |
| Net cash provided by (used in) investing activities                               | <u>31,902,085</u>                       | <u>(15,954,927)</u> |
| <b>Cash flows from financing activities:</b>                                      |   |                     |
| Net increase in deposits  | 18,339,249                              | 2,690,638           |
| Net (decrease) increase in advances by borrowers                                  | (107,427)                               | 60,735              |
| Net increase in borrowings  | 2,500,000                               | 2,500,000           |
| Repurchase common stock for 2019 Equity Incentive Plan                            | -                                       | (2,357,994)         |
| Repurchase common stock   | (6,837,901)                             | (332,545)           |
| Cash dividends on common stock  | (1,789,250)                             | -                   |
| Net cash provided by financing activities   | <u>12,104,671</u>                       | <u>2,560,834</u>    |
| Net increase (decrease) in cash and cash equivalents                              | 41,620,841                              | (12,859,639)        |
| Cash and cash equivalents, beginning balance                                      | 5,987,121                               | 18,846,760          |
| Cash and cash equivalents, ending balance   | <u>\$ 47,607,962</u>                    | <u>\$ 5,987,121</u> |
| <b>Supplemental disclosure of cash flows information:</b>                         |   |                     |
| Cash paid for interest  | \$ 1,480,243                            | \$ 1,403,270        |
| Cash paid for income taxes  | 625,000                                 | 190,000             |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies**

**Nature of Operations**

CBM Bancorp, Inc. (“CBM Bancorp” or “Company”) is the holding company for Chesapeake Bank of Maryland (“Bank”) and was formed in connection with the conversion of the Bank from the mutual to the stock form of organization. On September 27, 2018, the mutual to stock conversion of the Bank was completed and the Company became the parent holding company for the Bank. Shares of the Company began trading on the Nasdaq Capital Market on September 28, 2018. The Company is subject to regulation by the Board of Governors of the Federal Reserve System (“Federal Reserve Bank”).

CBM Bancorp’s primary business is the ownership and operation of the Bank, a community-oriented federal stock savings bank regulated by the Office of the Comptroller of the Currency. The Bank’s primary business activity is the acceptance of deposits from the general public and using the proceeds for loan originations and investments. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by the regulatory authorities.

In accordance with federal and state regulations, at the time of the conversion from mutual to stock form, the Bank substantially restricted retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder’s interest in the liquidation account. In the event of a complete liquidation of the Bank, each account holder will be entitled to receive a distribution in an amount proportionate to the adjusted qualifying account balances then held.

The Company may not pay a dividend on, or repurchase any of, its capital stock, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements. In addition, the Company is subject to certain other regulations restricting the payment of dividends on, and the repurchase of, its capital stock.

**Basis of Presentation**

The accounting and reporting policies of CBM Bancorp and the Bank conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and to general practices in the banking industry. The more significant policies follow:

**Principles of Consolidation**

The consolidated financial statements include the accounts of CBM Bancorp and the Bank, its wholly owned subsidiary. Material intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the valuation of deferred tax assets. In connection with the determination of the allowances for loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and interest-bearing deposits in other banks.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies (Continued)**

**Time Deposits in Other Banks**

The Bank uses financial instruments to supplement the investment securities portfolio. Interest income is recognized as earned. Purchase premiums and discounts are recognized as part of interest income using the interest method over the terms of the investments. Realized gains and losses on the sale of time deposits in other banks are included in earnings based on the trade date and are determined using the specific identification method. Time deposits in other banks are not marked to market.

**Investment Securities**

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity and are reported at amortized cost (including amortization of premium or accretion of discount).

Securities classified as available for sale are carried at fair value and are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains and losses, determined on the basis of the cost of the specific securities sold, are included in earnings on a trade date basis. Premiums and discounts are recognized in interest income using a method which approximates the interest method over the terms of the securities. Declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary, if any, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

**Federal Home Loan Bank Stock**

Federal Home Loan Bank of Atlanta (“FHLB”) stock is an equity interest in the FHLB, which does not have a readily determinable fair value for purposes of U.S. GAAP related to *Accounting for Certain Investments in Debt and Equity Securities*, because its ownership is restricted and it lacks a market. FHLB stock represents the required investment in the common stock of the Federal Home Loan Bank of Atlanta according to a predetermined formula. FHLB stock can be sold back only at par value of \$100 per share and only to the FHLB or another member institution.

**Loans Held for Sale**

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on loan sales are recorded in non-interest income, and loan origination fees, net of certain direct origination costs are deferred at origination of the loan and are recognized in non-interest income upon sale of the loan. The Bank’s current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing. Interest on loans held for sale is credited to income based on the principal amounts outstanding.

The Bank enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e., rate lock commitment). Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. The period of time between the issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 90 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the investor commits to purchase a loan at a price representing a premium on the day the borrower commits to an interest rate with the intent that they buyer/investor has assumed the interest rate risk on the loan. As a result, the Bank is not generally exposed to losses on loans sold utilizing best efforts, nor will it realize gains related to rate lock commitments due to changes in interest rates. The fair value of the rate lock commitments was considered immaterial at December 31, 2020 and December 31, 2019 and an adjustment was not recorded. Loans held for sale that are not ultimately sold, but instead are placed into the Bank’s portfolio, are reclassified as loans held for investment and recorded at fair value.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies (Continued)**

**Loans**

Loans are generally carried at the amount of unpaid principal, less the allowance for loan losses and adjusted for deferred loan origination fees and costs, which are recognized over the term of the loan as an adjustment to yield using a method that approximates the interest method. Interest on loans is accrued based on the principal amounts outstanding. It is the Bank's policy to discontinue the accrual of interest when the principal or interest is delinquent for 90 days or more, or if collection of principal and interest in full is in doubt.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The carrying value of impaired loans is based on the present value of the loan's expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

Impaired loans also include certain loans that have been modified in a troubled debt restructuring ("TDR") to make concessions to help a borrower remain current on the loan and/or to avoid foreclosure. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Generally nonaccrual loans that are modified and are considered TDRs are classified as nonperforming at the time of the restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

**Allowance for Loan Losses**

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The Bank maintains the allowance at a level believed, to the best of management's knowledge, to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. The evaluation process by portfolio segment includes, among other things, an analysis of delinquency trends, nonperforming loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of the loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience.

The establishment of the allowance for loan losses is significantly affected by management's judgment and uncertainties, and there is likelihood that different amounts would be reported under different conditions or assumptions. The Office of the Comptroller of the Currency as an integral part of its examination process periodically reviews the allowance for loan losses and may require the Bank to make additional provisions for estimated loan losses based upon judgments different from those of management.

The Bank's policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss, are those considered uncollectible and of such little value that their recognition as assets is not justified. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.



**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies (Continued)**

While the Bank utilizes available information to recognize losses on loans, future additions to the allowances for loan losses may be necessary based on changes in economic conditions, particularly in its' market area primarily in the state of Maryland. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Actual loan losses may be significantly more than the allowance for loan and lease losses the Bank has established, which could have a material negative effect on our consolidated financial statements.

**Bank-Owned Life Insurance ("BOLI")**

The Bank maintains life insurance policies on certain present and former directors. These policies are split-dollar or director insurance policies. Under the split-dollar insurance policies, the Bank pays the premiums and upon the death of the insured, the Bank will receive an amount equal to the premiums paid on the policy from the policy date to the date of death. Any remaining proceeds will be paid to the beneficiary. If the policy is surrendered before the date of death, the Bank will receive the lesser of the cash surrender value or the sum of the premiums paid on the policy from the policy date to the date of surrender. Under the director insurance policies, the Bank receives the cash surrender value if the policy is surrendered, or receives all benefits payable upon the death of the insured. As of December 31, 2020 and 2019, \$121,388 and \$122,118 respectively, was included in other liabilities related to the split-dollar insurance policies.

**Premises and Equipment**

Land is carried at cost. Property and equipment is carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives of assets. Amortization of leasehold improvements is recognized on a straight-line basis over the term of the lease or the life of the improvement, whichever is shorter.

The cost of maintenance and repairs is charged to expense as incurred whereas improvements are capitalized. The range of estimated useful lives for premises and equipment are as follows:

|                                   |               |
|-----------------------------------|---------------|
| Buildings and land improvements   | 5 - 50 years  |
| Leasehold improvements            | 10 - 15 years |
| Furniture, fixtures and equipment | 3 - 10 years  |
| Automobile                        | 5 years       |

**Foreclosed Real Estate**

Real estate acquired through foreclosure or other means is recorded at the fair value of the related real estate collateral at the transfer date less estimated selling costs. Losses incurred at the time of the acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated fair value of the property are included in noninterest expense. Costs to maintain foreclosed real estate are expensed as incurred.

**Employee Stock Ownership Plan ("ESOP")**

Compensation expense is recognized based on the current market price of shares committed to be released to employees. All shares released and committed to be released are deemed outstanding for purposes of earnings per share calculations. Dividends declared and paid on allocated shares held by the ESOP are charged to retained earnings. The value of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of stockholders' equity. Dividends declared on unallocated shares held by the ESOP are recorded as a reduction of the ESOP's loan payment to the Company.

**Stock-Based Compensation**

Compensation cost is recognized for stock options and restricted stock awards ("RSA") issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for RSAs. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies (Continued)**

**Income Taxes**

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income. Deferred income taxes and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted through earnings for the effects of changes in tax laws and rates on the date of enactment.

**Earnings per Common Share**

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Weighted average shares include allocated ESOP shares and ESOP shares committed to be released but exclude unallocated ESOP shares. Diluted earnings per share includes 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.

**Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet. Such financial instruments are recorded when they are funded.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of these instruments. The Bank uses the same credit policies for these instruments as it does for the on-balance sheet instruments.

**Concentrations of Credit Risk**

As of December 31, 2020 and 2019, the Bank had no deposits in other financial institutions in excess of amounts insured by the FDIC. The Bank also maintains accounts with brokerage firms containing securities. These balances are insured up to \$500,000 by the Securities Investor Protection Corporation.

**Emerging Growth Company**

The Company, as an emerging growth company ("EGC"), has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

**Coronavirus Aid, Relief, and Economic Security Act**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law. The CARES Act creates a forbearance program for federally backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the National Emergency, and provides financial institutions the option to temporarily suspend certain requirements under U.S. GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19.

**Recent Accounting Pronouncements**

*Accounting Standards Update ("ASU") ASU 2016-02, Leases (Topic 842)*. This ASU provides certain targeted improvements to align lessor accounting with the lessee accounting model. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, including interim reporting periods within that reporting period, for public business entities. As the Company will take advantage of the extended transition period for complying with new or revised accounting standards assuming we remain a smaller reporting company, we will adopt the amendments in this update beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. A modified retrospective approach must be applied for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Significant Accounting Policies (Continued)**

*ASU 2016-13, Financial Instruments – Credit Losses.* The ASU sets forth a “current expected credit loss” (CECL) model which requires the Bank to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. Entities will apply the standard’s provisions as a cumulative-effect (i.e., modified retrospective approach). The Company has begun to gather loan information and consider acceptable methodologies to comply with this ASU. The Company’s initial evaluation indicates that the provisions of this ASU are expected to impact its consolidated financial statements, in particular the level of reserve for loan losses and is continuing to evaluate and assess the impact of the adoption of this ASU on its consolidated financial statements. On October 16, 2019, the FASB approved its proposal to delay the effective date for smaller reporting companies, as defined by the SEC, and other non-SEC reporting entities. As the Company will take advantage of the extended transition period for complying with new or revised accounting standards assuming we remain a smaller reporting company, we will adopt the amendments in this update beginning after December 15, 2022, including interim periods within those fiscal years.

**Note 2. Securities**

The amortized cost and estimated fair value of securities classified as available for sale at December 31, 2020 and 2019, are as follows:

|   | December 31, 2020 |                              |                               |               |
|---|-------------------|------------------------------|-------------------------------|---------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Securities available for sale</b>              |                   |                              |                               |               |
| U.S. Government and Federal<br>Agency obligations | \$ 2,499,671      | \$ 54,342                    | \$ -                          | \$ 2,554,013  |
| Residential mortgage-backed securities            | 13,116,916        | 872,595                      | -                             | 13,989,511    |
|   | \$ 15,616,587     | \$ 926,937                   | \$ -                          | \$ 16,543,524 |
|   |                   |                              |                               |               |
|   | December 31, 2019 |                              |                               |               |
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Securities available for sale</b>              |                   |                              |                               |               |
| U.S. Government and Federal<br>Agency obligations | \$ 9,472,370      | \$ 76,651                    | \$ 4,679                      | \$ 9,544,342  |
| Residential mortgage-backed securities            | 25,415,647        | 638,856                      | 43,964                        | 26,010,539    |
| Municipal securities                              | 1,504,664         | 31,046                       | -                             | 1,535,710     |
|   | \$ 36,392,681     | \$ 746,553                   | \$ 48,643                     | \$ 37,090,591 |

Proceeds from the sale of available securities totaled \$7,312,769 realizing gross gains of \$143,223 for the year ended December 31, 2020. There were not sales of investment securities for the year ended December 31, 2019.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 2. Securities (Continued)**

The amortized cost and estimated fair value of securities as of December 31, 2020 and 2019, 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.

|                                       | December 31, 2020             |                     | December 31, 2019             |                     |
|---------------------------------------|-------------------------------|---------------------|-------------------------------|---------------------|
|                                       | Securities Available for Sale |                     | Securities Available for Sale |                     |
|                                       | Amortized<br>Cost             | Fair<br>Value       | Amortized<br>Cost             | Fair<br>Value       |
| Due in one year or less               | \$ 1,000,000                  | \$ 1,025,162        | \$ 1,000,000                  | \$ 998,407          |
| Due after one year through five years | 1,499,671                     | 1,528,851           | 9,474,467                     | 9,560,135           |
| Due five years to ten years           | -                             | -                   | 502,567                       | 521,510             |
| Mortgage-backed, monthly installments | 13,116,916                    | 13,989,511          | 25,415,647                    | 26,010,539          |
|                                       | <u>\$15,616,587</u>           | <u>\$16,543,524</u> | <u>\$36,392,681</u>           | <u>\$37,090,591</u> |

The Bank did not have any securities with gross unrealized losses at December 31, 2020. Securities with gross unrealized losses at December 31, 2019 aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

|   | December 31, 2019   |                               |                      |                               |                     |                               |
|---|---------------------|-------------------------------|----------------------|-------------------------------|---------------------|-------------------------------|
|   | Less than 12 Months |                               | 12 Months or Greater |                               | Total               |                               |
|   | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value        | Gross<br>Unrealized<br>Losses | Fair<br>Value       | Gross<br>Unrealized<br>Losses |
| <b>Securities available for sale</b>              |                     |                               |                      |                               |                     |                               |
| U.S. Government and Federal<br>Agency obligations | \$ -                | \$ -                          | \$1,995,321          | \$ 4,679                      | \$ 1,995,321        | \$ 4,679                      |
| Residential mortgage-backed<br>securities         | 4,862,213           | 43,964                        | -                    | -                             | 4,862,213           | 43,964                        |
|   | <u>\$ 4,862,213</u> | <u>\$ 43,964</u>              | <u>\$1,995,321</u>   | <u>\$ 4,679</u>               | <u>\$ 6,857,534</u> | <u>\$ 48,643</u>              |

At December 31, 2019, the Bank held seven investments with gross unrealized losses totaling \$48,643. The unrealized losses that existed were a result of market changes in interest rates since the original purchase. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

An impairment loss is recognized in earnings if any of the following are true: (1) the Bank intends to sell the debt security; (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the Bank does not expect to recover the entire amortized cost basis of the security. In situations where the Bank intends to sell or when it is more likely than not that the Bank will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in equity as a component of other comprehensive income, net of deferred tax. There were no securities pledged as of December 31, 2020 and 2019.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 3. Loans**

The Bank makes loans to customers primarily in the Baltimore Metropolitan Area and its surrounding counties. The principal loan portfolio segment balances at December 31, 2020 and 2019 were as follows:

|  | <u>December 31,<br/>2020</u> | <u>December 31,<br/>2019</u> |
|--|------------------------------|------------------------------|
| Real estate loans                            |                              |                              |
| One-to four-family                           | \$ 62,117,559                | \$ 74,655,376                |
| Home equity loans and lines of credit        | 6,894,632                    | 7,488,348                    |
| Construction and land development            | 10,804,315                   | 9,260,520                    |
| Nonresidential                               | 60,209,896                   | 61,012,054                   |
|  | <u>140,026,402</u>           | <u>152,416,758</u>           |
| Total real estate loans                      |                              |                              |
| Other loans                                  |                              |                              |
| Commercial                                   | 10,197,884                   | 6,946,372                    |
| Consumer                                     | 336,507                      | 522,566                      |
|  | <u>10,534,391</u>            | <u>7,468,938</u>             |
| Total other loans                            |                              |                              |
| Total loans                                  | 150,560,793                  | 159,885,696                  |
| Net deferred loan origination fees and costs | (254,795)                    | (261,085)                    |
| Allowance for loan losses                    | <u>(1,727,216)</u>           | <u>(1,379,150)</u>           |
| Total loans, net                             | <u>\$ 148,578,782</u>        | <u>\$ 158,245,461</u>        |

Overdraft deposits are reclassified as consumer loans and are included in the total loans on the balance sheet. Overdrafts were \$1,739 and \$25,714 at December 31, 2020 and 2019, respectively.

Nonresidential real estate loans entail greater risks compared to residential real estate loans because they typically involved larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the company, as repayment of the loan generally is dependent, in large part, on the sufficient income for the property to cover operating expenses and debt service. Changes in economic conditions, such as the COVID-19 pandemic, that are not in the control of the borrower or lender could negatively impact the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for nonresidential real estate than residential properties.

The following table provides information regarding our nonresidential real estate loans by type at December 31, 2020.

| <u>Type of Loan</u>      | <u>Number of Loans</u> | <u>Balance</u>       |
|--------------------------|------------------------|----------------------|
| Office                   | 30                     | \$ 15,070,563        |
| Retail                   | 16                     | 14,307,061           |
| Warehouse/Industrial     | 13                     | 9,135,023            |
| Apartment/Multifamily    | 16                     | 8,546,128            |
| Hotel                    | 5                      | 7,434,274            |
| Other                    | 10                     | 2,985,704            |
| Restaurant               | 5                      | 1,848,794            |
| Religious/Church Related | 4                      | 882,349              |
|                          | <u>99</u>              | <u>\$ 60,209,896</u> |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 3. Loans (Continued)**

**Paycheck Protection Program**

The CARES Act authorized the Small Business Administration (“SBA”) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (“PPP”). As a qualified lender, we were automatically authorized to originate PPP loans. In early April 2020, the Company began accepting and processing applications for PPP loans. During the year ended December 31, 2020 we processed 101 PPP loans in the amount of \$8,563,898.

As of December 31, 2020, our borrowers applied for and received forgiveness on these PPP loans in the amount of \$4,084,004 and we recorded fee income of \$186,432. As of December 31, 2020, our outstanding PPP loan balances are \$4,479,894, with deferred fees relating to those loans in the amount of \$63,147.

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses**

The Bank currently manages its credit products and respective exposure to credit losses by the following specific portfolio segments which are levels at which the Bank develops and documents its systematic methodology to determine the allowance for loan losses attributable to each respective portfolio segment. The segments are:

- **One-to four-family real estate loans** – This residential real estate category contains permanent mortgage loans and construction permanent mortgage loans to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios, and collateral values. Loans may either be conforming or non-conforming.
- **Home equity loans and lines of credit** – This residential real estate category includes mortgage loans and lines of credit secured by one-to four-family residential real estate. These loans are typically secured with second mortgages on the homes.
- **Construction and land development** – Commercial acquisition, development and construction loans are intended to finance the construction of commercial and residential properties and include loans for the acquisition and development of land. Construction loans represent a higher degree of risk than permanent real estate loans and may be affected by a variety of factors such as the borrower’s ability to control costs and adhere to time schedules and the risk that constructed units may not be absorbed by the market within the anticipated time frame or at the anticipated price. The loan commitment on these loans often includes an interest reserve that allows the lender to periodically advance loan funds to pay interest charges on the outstanding balance of the loan.
- **Nonresidential real estate loans** – Nonresidential real estate loans consist of commercial permanent mortgage loans and commercial construction permanent mortgage loans secured by owner occupied and non-owner occupied properties. Owner occupied commercial property loans involve a variety of property types to conduct the borrower’s operations. The primary source of repayment for this type of loan is the cash flow from the business and is based upon the borrower’s financial health and ability of the borrower and the business to repay. Non-owner occupied commercial property loans involve investment properties for warehouse, retail, and office space with a history of occupancy and cash flow. This real estate category contains commercial mortgage loans to the developers and owners of commercial real estate where the borrower intends to operate or sell the property at a profit and use the income stream or proceeds from the sale to repay the loan.
- **Commercial loans** - Commercial loans are made to provide funds for equipment and general corporate needs. Repayment of the loan primarily uses the funds obtained from the operation of the borrower’s business. Commercial loans also include lines of credit that are utilized to finance a borrower’s short-term credit needs and/or finance a percentage of eligible receivables and inventory, as well as PPP loans.
- **Consumer loans** – This category of loans includes primarily installment loans. Consumer loans include installment loans used by customers to purchase automobiles, boats and recreational vehicles.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

The allowance for loan losses is maintained at a level to provide for losses that are probable and can be reasonably estimated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent losses in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Determinations as to the classification of assets and the amount of loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. The Bank regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

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

Loans are automatically placed on non-accrual status when payment of principal or interest is more than 90 days delinquent. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt or if the loan has been restructured. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if unpaid principal and interest are repaid so that the loan is less than 90 days delinquent. The Bank's charge-off policy states after all collection efforts have been exhausted, the loan is deemed to be a loss and the amount has been determined, the loss amount will be charged to the allowance for loan losses.

The following tables summarize the activity in the allowance for losses for the years ended December 31, 2020 and 2019 and the distribution of the allowance for loan losses and loans receivable by loan portfolio class and impairment method as of December 31, 2020 and 2019.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

As of December 31, 2020

|  | One –to<br>Four-Family | Home Equity<br>Loans and Lines<br>of Credit | Construction<br>and Land<br>Development | Nonresidential | Commercial    | Consumer   | Unallocated | Total          |
|--|------------------------|---|---|----------------|---------------|------------|-------------|----------------|
| Beginning Balance  | \$ 331,605             | \$ 62,603                                   | \$ 179,541                              | \$ 683,453     | \$ 55,571     | \$ 6,950   | \$ 59,427   | \$ 1,379,150   |
| Charge-offs  | -                      | -   | (263)                                   | -              | -             | (3,633)    | -           | (3,896)        |
| Recoveries   | -                      | 1,962                                       | -                                       | -              | -             | -          | -           | 1,962          |
| Provision  | 8,212                  | (215)                                       | 27,084                                  | 360,143        | 12,809        | 1,394      | (59,427)    | 350,000        |
| Ending Balance   | \$ 339,817             | \$ 64,350                                   | \$ 206,362                              | \$ 1,043,596   | \$ 68,380     | \$ 4,711   | \$ -        | \$ 1,727,216   |
| Ending balance: individually<br>evaluated for impairment | \$ 7,501               | \$ 97                                       | \$ -                                    | \$ -           | \$ -          | \$ -       | \$ -        | \$ 7,598       |
| Ending balance: collectively<br>evaluated for impairment | \$ 332,316             | \$ 64,253                                   | \$ 206,362                              | \$ 1,043,596   | \$ 68,380     | \$ 4,711   | \$ -        | \$ 1,719,618   |
| Loans:   |                        |   |   |                |               |            |             |                |
| Ending balance   | \$ 62,117,559          | \$ 6,894,632                                | \$ 10,804,315                           | \$ 60,209,896  | \$ 10,197,884 | \$ 336,507 | \$ -        | \$ 150,560,793 |
| Ending balance: individually<br>evaluated for impairment | \$ 187,845             | \$ 35,568                                   | \$ -                                    | \$ -           | \$ -          | \$ -       | \$ -        | \$ 223,413     |
| Ending balance: collectively<br>evaluated for impairment | \$ 61,929,714          | \$ 6,859,064                                | \$ 10,804,315                           | \$ 60,209,896  | \$ 10,197,884 | \$ 336,507 | \$ -        | \$ 150,337,380 |



**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

As of December 31, 2019

|  | One –to<br>Four-Family | Home Equity<br>Loans and Lines<br>of Credit | Construction<br>and Land<br>Development | Nonresidential | Commercial   | Consumer   | Unallocated | Total          |
|--|------------------------|---|---|----------------|--------------|------------|-------------|----------------|
| Beginning Balance  | \$ 244,781             | \$ 68,837                                   | \$ 185,170                              | \$ 626,031     | \$ 28,879    | \$ 6,669   | \$ 27,985   | \$ 1,188,352   |
| Charge-offs  | (90,111)               | -   | (11,000)                                | -              | -            | -          | -           | (101,111)      |
| Recoveries   | -                      | 2,439                                       | -                                       | 114,470        | -            | -          | -           | 116,909        |
| Provision  | 176,935                | (8,673)                                     | 5,371                                   | (57,048)       | 26,692       | 281        | 31,442      | 175,000        |
| Ending Balance   | \$ 331,605             | \$ 62,603                                   | \$ 179,541                              | \$ 683,453     | \$ 55,571    | \$ 6,950   | \$ 59,427   | \$ 1,379,150   |
| Ending balance: individually<br>evaluated for impairment | \$ -                   | \$ 681                                      | \$ -                                    | \$ -           | \$ -         | \$ -       | \$ -        | \$ 681         |
| Ending balance: collectively<br>evaluated for impairment | \$ 331,605             | \$ 61,922                                   | \$ 179,541                              | \$ 683,453     | \$ 55,571    | \$ 6,950   | \$ 59,427   | \$ 1,378,469   |
| Loans:   |                        |   |   |                |              |            |             |                |
| Ending balance   | \$ 74,655,376          | \$ 7,488,348                                | \$ 9,260,520                            | \$ 61,012,514  | \$ 6,946,372 | \$ 522,566 | \$ -        | \$ 159,885,696 |
| Ending balance: individually<br>evaluated for impairment | \$ 337,984             | \$ 116,721                                  | \$ 791,625                              | \$ 1,581,818   | \$ -         | \$ -       | \$ -        | \$ 2,828,148   |
| Ending balance: collectively<br>evaluated for impairment | \$ 74,317,392          | \$ 7,371,627                                | \$ 8,468,895                            | \$ 59,430,696  | \$ 6,946,372 | \$ 552,566 | \$ -        | \$ 157,057,548 |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of classified loans, net chargeoffs, nonperforming loans, credit scores, and the general economic conditions in the Bank's market area.

The Bank utilizes an internal rating system to monitor the credit quality of the overall loan portfolio. A description of the general characteristics is as follows:

- **Pass** – A pass loan is considered of sufficient quality to preclude a special mention or an adverse rating. Pass assets are generally well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. The pass classification also includes watch credits which have all of the characteristics of a pass loan, but warrant more than the normal level of supervision.
- **Special mention** – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
- **Substandard** – A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well defined weakness, or weaknesses, that jeopardize the collection or liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. This will be the measurement for determining if a loan is impaired.
- **Doubtful** – A doubtful loan has all of the weaknesses inherent in a substandard credit with the added factor that the weaknesses make the collection or liquidation in full, on the basis of current information, conditions and values, highly questionable and improbable. Loans in this category must be placed on non-accrual status and all payments applied to principal recapture. Doubtful classification should be used only when a distinct possibility of loss exists. When identified, adequate loss should be recorded for the specific assets. It is not necessary to classify an entire credit doubtful when collection of a specific portion appears highly probable.
- **Loss** – A loan classified as loss is considered uncollectable and of such little value that continuance as a loan is unjustified. A loss classification does not mean that the credit has absolutely no value; partial recoveries may be received in the future. Amounts classified as loss must be charged-off in the period in which they are deemed uncollectible.

When assets are classified as impaired, the Bank allocates a portion of the related general loss allowances to such assets as the Bank deems prudent. Determinations as to the classification of assets and the amount of loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. The Bank regularly reviews its asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

The following table is a summary of the loan portfolio quality indicators by loan class recorded investment as of December 31, 2020 and 2019:

|                                       | <b>December 31, 2020</b> |                            |                    |                 |                        |
|---------------------------------------|--------------------------|----------------------------|--------------------|-----------------|------------------------|
|                                       | <u>Pass</u>              | <u>Special<br/>Mention</u> | <u>Substandard</u> | <u>Doubtful</u> | <u>Total<br/>Loans</u> |
| Real estate loans:                    |                          |                            |                    |                 |                        |
| One-to four-family                    | \$ 61,657,131            | \$ 272,583                 | \$ 187,845         | \$ -            | \$ 62,117,559          |
| Home equity loans and lines of credit | 6,874,011                | 20,621                     | -                  | -               | 6,894,632              |
| Construction and land development     | 10,804,315               | -                          | -                  | -               | 10,804,315             |
| Nonresidential                        | 58,831,855               | 1,378,041                  | -                  | -               | 60,209,896             |
| Other loans:                          |                          |                            |                    |                 |                        |
| Commercial                            | 10,197,884               | -                          | -                  | -               | 10,197,884             |
| Consumer                              | 336,507                  | -                          | -                  | -               | 336,507                |
| <b>Total loans</b>                    | <u>\$ 148,701,703</u>    | <u>\$ 1,671,245</u>        | <u>\$ 187,845</u>  | <u>\$ -</u>     | <u>\$ 150,560,793</u>  |

|                                       | <b>December 31, 2019</b> |                            |                     |                 |                        |
|---------------------------------------|--------------------------|----------------------------|---------------------|-----------------|------------------------|
|                                       | <u>Pass</u>              | <u>Special<br/>Mention</u> | <u>Substandard</u>  | <u>Doubtful</u> | <u>Total<br/>Loans</u> |
| Real estate loans:                    |                          |                            |                     |                 |                        |
| One-to four-family                    | \$ 73,856,550            | \$ 460,842                 | \$ 337,984          | \$ -            | \$ 74,655,376          |
| Home equity loans and lines of credit | 7,412,069                | -                          | 76,279              | -               | 7,488,348              |
| Construction and land development     | 8,468,895                | -                          | 791,625             | -               | 9,260,520              |
| Nonresidential                        | 59,430,696               | -                          | 1,581,818           | -               | 61,012,514             |
| Other loans:                          |                          |                            |                     |                 |                        |
| Commercial                            | 6,946,372                | -                          | -                   | -               | 6,946,372              |
| Consumer                              | 522,566                  | -                          | -                   | -               | 522,566                |
| <b>Total loans</b>                    | <u>\$ 156,637,148</u>    | <u>\$ 460,842</u>          | <u>\$ 2,787,706</u> | <u>\$ -</u>     | <u>\$ 159,885,696</u>  |

The following table sets forth certain information with respect to our loan portfolio delinquencies by loan class and amount as of December 31, 2020 and 2019:

|                                       | <b>December 31, 2020</b>                 |  |   |                                 |                          |                        |  |                             |
|---------------------------------------|--|--|---|---------------------------------|--------------------------|------------------------|--|-----------------------------|
|                                       | <u>Loans<br/>30-59 Days<br/>Past Due</u> | <u>Loans<br/>60-89 Days<br/>Past Due</u> | <u>Loans<br/>90 or More<br/>Days<br/>Past Due</u> | <u>Total Past<br/>Due Loans</u> | <u>Current<br/>Loans</u> | <u>Total<br/>Loans</u> | <u>Recorded<br/>Investment &gt;<br/>90 Days and<br/>Accruing</u> | <u>Nonaccrual<br/>Loans</u> |
| Real estate loans:                    |  |  |   |                                 |                          |                        |  |                             |
| One-to four-family                    | \$ 9,199                                 | \$ -                                     | \$ 187,845  | \$ 197,044                      | \$ 61,920,515            | \$ 62,117,559          | \$ -   | \$ 187,845                  |
| Home equity loans and lines of credit | -  | -  | -   | -                               | 6,894,632                | 6,894,632              | -  | -                           |
| Construction and land development     | -  | -  | -   | -                               | 10,804,315               | 10,804,315             | -  | -                           |
| Nonresidential                        | -  | -  | -   | -                               | 60,209,896               | 60,209,896             | -  | -                           |
| Other loans:                          |  |  |   |                                 |                          |                        |  |                             |
| Commercial                            | -  | -  | -   | -                               | 10,197,884               | 10,197,884             | -  | -                           |
| Consumer                              | -  | -  | -   | -                               | 336,507                  | 336,507                | -  | -                           |
| <b>Total loans</b>                    | <u>\$ 9,199</u>                          | <u>\$ -</u>                              | <u>\$ 187,845</u>                                 | <u>\$ 197,044</u>               | <u>\$ 150,363,749</u>    | <u>\$ 150,560,793</u>  | <u>\$ -</u>  | <u>\$ 187,845</u>           |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

|  | December 31, 2019               |                                 |   |                         |                       |                       |   |                     |
|--|---------------------------------|---------------------------------|---|-------------------------|-----------------------|-----------------------|---|---------------------|
|  | Loans<br>30-59 Days<br>Past Due | Loans<br>60-89 Days<br>Past Due | Loans<br>90 or More<br>Days<br>Past Due | Total Past<br>Due Loans | Current<br>Loans      | Total<br>Loans        | Recorded<br>Investment ><br>90 Days and<br>Accruing | Nonaccrual<br>Loans |
| Real estate loans:                       |                                 |                                 |   |                         |                       |                       |   |                     |
| One-to four-family                       | \$ 220,316                      | \$ -                            | \$ 337,984                              | \$ 558,300              | \$ 74,097,076         | \$ 74,655,376         | \$ -  | \$ 337,984          |
| Home equity loans<br>and lines of credit | 169,329                         | -                               | 76,279                                  | 245,608                 | 7,242,740             | 7,488,348             | -   | 76,279              |
| Construction and<br>land development     | -                               | -                               | 75,728                                  | 75,728                  | 9,184,792             | 9,260,520             | -   | 75,728              |
| Nonresidential                           | -                               | -                               | -                                       | -                       | 61,012,514            | 61,012,514            | -   | -                   |
| Other loans:                             |                                 |                                 |   |                         |                       |                       |   |                     |
| Commercial                               | 31,510                          | -                               | -                                       | 31,510                  | 6,914,862             | 6,946,372             | -   | -                   |
| Consumer                                 | 24,759                          | -                               | -                                       | 24,759                  | 497,807               | 522,566               | -   | -                   |
| Total loans                              | <u>\$ 445,914</u>               | <u>\$ -</u>                     | <u>\$ 489,991</u>                       | <u>\$ 935,905</u>       | <u>\$ 158,949,791</u> | <u>\$ 159,885,696</u> | <u>\$ -</u>   | <u>\$ 489,991</u>   |

At December 31, 2020 and 2019 there were no loans 90 days past due and still accruing interest. At December 31, 2020, the Bank had three loans on non-accrual status with foregone interest in the amount of \$8,895. At December 31, 2019, the Bank had seven loans on non-accrual status with foregone interest in the amount of \$17,925.

In response to the COVID-19 pandemic and its economic impact to our customers, we implemented a short-term modification program that complies with the CARES Act and ASC 310-40 to provide temporary payment relief to those borrowers directly impacted by COVID-19 who were not more than 30 days past due as of December 31, 2019. This program allowed for a deferral of payments for 90 days, which we extended for an additional 90 days for certain loans, for a maximum of 180 days on a cumulative and successive basis.

During the year ended December 31, 2020, the Bank had received and approved requests to modify 61 loans with balances of approximately \$26,100,000 due to the effects of COVID-19. The Bank's modifications primarily consisted of interest only payments with the deferral of principal for up to six months, dependent on the borrower and their financial situation. Of the 61 loans modified during the year ended December 31, 2020 due to the effects of COVID-19, all loans complied with their loan modification agreements with four of the loans as of December 31, 2020 continuing to receive COVID-19 modification relief.

Additionally, none of the deferrals are reflected in the Company's asset quality measures (i.e. non-performing loans) due to the provision of the CARES Act that permits U.S. financial institutions to temporarily suspend the U.S. GAAP requirements to treat such short-term modifications as TDR. Similar provisions have also been confirmed by interagency guidance issued by the federal banking agencies and confirmed with staff members of the Financial Accounting Standards Board.

The breakdown of the remaining loan modifications due to the effects of COVID-19 by loan category are as follows:

|                                       | Number of loans | Balance             |
|---------------------------------------|-----------------|---------------------|
| One-to four-family                    | 1               | \$ 164,551          |
| Home equity loans and lines of credit | 1               | 22,313              |
| Nonresidential                        | 2               | 1,285,259           |
| Total loans                           | <u>4</u>        | <u>\$ 1,472,123</u> |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

The Bank accounts for impaired loans under generally accepted accounting principles. An impaired loan generally is one for which it is probable, based on current information, that the lender will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Bank classifies a problem asset as impaired, it provides a specific reserve for that portion of the asset that is deemed uncollectible based on the present value of expected future cash flows discounted at the loan's original effective interest rate, or based on the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

The following table is a summary of impaired loans for the years ended December 31, 2020 and 2019:

|                                       | December 31, 2020      |                                |                      |                                   |                                  |
|---------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| With no related allowance recorded:   |                        |                                |                      |                                   |                                  |
| One-to four-family                    | \$ 97,032              | \$ 98,970                      | \$ -                 | \$ 97,804                         | \$ 1,927                         |
| With an allowance recorded:           |                        |                                |                      |                                   |                                  |
| One-to four-family                    | \$ 90,813              | \$ 90,813                      | \$ 7,501             | \$ 88,012                         | \$ 4,019                         |
| Home equity loans and lines of credit | 35,568                 | 35,568                         | 97                   | 38,005                            | 2,238                            |
| Total                                 |                        |                                |                      |                                   |                                  |
| One-to four-family                    | \$ 187,845             | \$ 189,783                     | \$ 7,501             | \$ 185,816                        | \$ 5,946                         |
| Home equity loans and lines of credit | 35,568                 | 35,568                         | 97                   | 38,005                            | 2,238                            |
|                                       | December 31, 2019      |                                |                      |                                   |                                  |
|                                       | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| With no related allowance recorded:   |                        |                                |                      |                                   |                                  |
| One-to four-family                    | \$ 337,984             | \$ 342,345                     | \$ -                 | \$ 342,907                        | \$ 11,765                        |
| Home equity loans and lines of credit | 76,279                 | 76,279                         | -                    | 82,117                            | 2,727                            |
| Construction and land development     | 791,625                | 802,625                        | -                    | 836,264                           | 54,478                           |
| Nonresidential                        | 1,581,818              | 1,581,818                      | -                    | 1,609,744                         | 61,141                           |
| With an allowance recorded:           |                        |                                |                      |                                   |                                  |
| Home equity loans and lines of credit | \$ 40,442              | \$ 40,442                      | \$ 681               | \$ 43,136                         | \$ 2,964                         |
| Total                                 |                        |                                |                      |                                   |                                  |
| One-to four-family                    | \$ 337,984             | \$ 342,345                     | \$ -                 | \$ 342,907                        | \$ 11,765                        |
| Home equity loans and lines of credit | 116,721                | 116,721                        | 681                  | 125,252                           | 5,691                            |
| Construction and land development     | 791,625                | 802,625                        | -                    | 836,264                           | 54,478                           |
| Nonresidential                        | 1,581,818              | 1,581,818                      | -                    | 1,609,744                         | 61,141                           |

Impaired loans also include certain loans that have been modified in a troubled debt restructuring (a "TDR") to make concessions to help a borrower remain current on the loan and/or to avoid foreclosure. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Generally nonaccrual loans that are modified and are considered TDRs are classified as nonperforming at the time of the restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 4. Credit Quality of Loans and the Allowance for Loan Losses (Continued)**

A summary of TDRs at December 31, 2020 and 2019 are as follows:

| <u>December 31, 2020</u>              | <u>Number of<br/>Contracts</u> | <u>Performing</u> | <u>Nonperforming</u> | <u>Total</u>      |
|---------------------------------------|--------------------------------|-------------------|----------------------|-------------------|
| One-to four-family                    | 1                              | \$ -              | \$ 90,813            | \$ 90,813         |
| Home equity loans and lines of credit | 1                              | 35,568            | -                    | 35,568            |
|                                       | <u>2</u>                       | <u>\$ 35,568</u>  | <u>\$ -</u>          | <u>\$ 126,381</u> |
|                                       |                                |                   |                      |                   |
| <u>December 31, 2019</u>              | <u>Number of<br/>Contracts</u> | <u>Performing</u> | <u>Nonperforming</u> | <u>Total</u>      |
| Home equity loans and lines of credit | 1                              | \$ 40,442         | -                    | \$ 40,442         |

The Bank had two TDRs at December 31, 2020 totaling \$126,381 and one TDR at December 31, 2019 totaling \$40,442. For the year ended December 31, 2020, one TDR was added and was included in nonperforming until such time the borrower performs as agreed for a period of six months. For the year ended December 31, 2019, one TDR was charged-off and we recorded a loss of \$49,836 during the year ending December 31, 2019. We recorded a total loss over the life of this TDR of \$107,836. The Bank has no commitments to loan additional funds to borrowers whose loans have been modified. There were no TDRs reclassified to nonperforming loans during the year ended December 31, 2020 and 2019. A default is considered to have occurred once the TDR is past due 90 days or more, or it has been placed on nonaccrual.

If loans modified in a TDR subsequently default, the Bank evaluates the loan for possible further impairment. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

**Note 5. Premises and Equipment**

Premises and equipment at December 31, 2020 and 2019, were as follows:

|                                    | <u>2020</u>         | <u>2019</u>         |
|------------------------------------|---------------------|---------------------|
| Cost                               |                     |                     |
| Land                               | \$ 619,926          | \$ 619,926          |
| Buildings and land improvements    | 2,741,314           | 2,713,105           |
| Leasehold improvements             | 160,469             | 157,819             |
| Furniture, fixtures, and equipment | 884,077             | 923,541             |
| Total                              | <u>4,405,786</u>    | <u>4,414,391</u>    |
| Less: accumulated depreciation     | <u>(2,652,178)</u>  | <u>(2,585,725)</u>  |
|                                    | <u>\$ 1,753,608</u> | <u>\$ 1,828,666</u> |

Depreciation expense totaled \$145,439 and \$158,898 for the years ended December 31, 2020 and 2019, respectively.

The Bank has an operating lease for one of its existing branch locations. The lease expires on December 31, 2022 and contains the option to extend for two additional periods of one year. Minimum annual lease payments are as follows:

| <u>Year Ending December 31,</u> | <u>Payments</u>  |
|---------------------------------|------------------|
| 2021                            | 31,906           |
| 2022                            | 32,226           |
|                                 | <u>\$ 64,132</u> |

Total rent expense for leased property totaled \$34,782 and \$34,664 for the years ended December 31, 2020 and December 31, 2019, respectively.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 6. Foreclosed Real Estate**

At December 31, 2020 and 2019, the Bank had \$775,000 and \$845,000, respectively, in foreclosed real estate. The Bank did not dispose of any foreclosed real estate during the years ended December 31, 2020 and 2019.

The following table summarizes changes in foreclosed real estate for the years ended December 31, 2020 and 2019, which are measured on a nonrecurring basis using significant unobservable, Level 3, inputs:

|                                      | <u>2020</u>       | <u>2019</u>       |
|--------------------------------------|-------------------|-------------------|
| Balance, beginning of period         | \$ 845,000        | \$ 865,000        |
| Write-down of foreclosed real estate | (70,000)          | (20,000)          |
| Balance, end of period               | <u>\$ 775,000</u> | <u>\$ 845,000</u> |

At December 31, 2020 and 2019, there were no loans in the process of foreclosure. At December 31, 2020 and 2019, there were no residential real estate properties included in foreclosed real estate.

**Note 7. Deposits**

Deposits as of December 31, 2020 and 2019 are summarized as follows:

|                            | <u>2020</u>           | <u>2019</u>           |
|----------------------------|-----------------------|-----------------------|
| Noninterest-bearing demand | \$ 32,650,939         | \$ 19,780,866         |
| Interest-bearing demand    | 25,190,673            | 23,779,145            |
| Money market               | 10,728,201            | 10,242,323            |
| Savings                    | 27,376,013            | 24,295,700            |
| Certificates of deposit    | <u>78,834,296</u>     | <u>78,342,839</u>     |
| Total deposits             | <u>\$ 174,780,122</u> | <u>\$ 156,440,873</u> |

Deposit accounts in the Bank are federally insured up to \$250,000 per depositor. The aggregate amount of certificates of deposit with balances of \$250,000 or more totaled \$18,339,134 and \$14,113,578 at December 31, 2020 and 2019, respectively.

At December 31, 2020, certificates of deposit and their remaining maturities were as follows:

| <u>December 31,</u> |                      |
|---------------------|----------------------|
| 2021                | \$ 35,747,543        |
| 2022                | 18,036,154           |
| 2023                | 13,318,627           |
| 2024                | 7,928,988            |
| 2025                | <u>3,802,984</u>     |
|                     | <u>\$ 78,834,296</u> |

Deposit balances of officers and directors totaled \$973,464 and \$419,857 at December 31, 2020 and 2019, respectively.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 8. Borrowings**

The Bank has advances outstanding from the FHLB. A schedule of borrowings is as follows:

| December 31, 2020 |       |               | December 31, 2019 |       |               |
|-------------------|-------|---------------|-------------------|-------|---------------|
| Amount            | Rate  | Maturity Date | Amount            | Rate  | Maturity Date |
| \$ 5,000,000      | 0.95% | 03/06/2023    | \$ 2,500,000      | 1.78% | -             |

The advance at December 31, 2019 was an overnight advance that was repaid in March 2020.

The Bank has an agreement with the FHLB that allows it to obtain advances secured by assets owned by the Bank. Total advances are limited to 25% of the Bank's total assets. As of December 31, 2020 and 2019, the Bank had total credit availability of approximately \$58,700,000 and \$55,100,000, respectively, and remaining credit availability of approximately \$53,700,000 and \$52,600,000, respectively, with FHLB. As of December 31, 2020 and 2019, the Bank pledged a portion of its one-to four-family residential mortgages as collateral. The amount of loans that were deemed eligible to pledge as collateral totaled approximately \$43,700,000 and \$52,700,000 at December 31, 2020 and 2019, respectively.

The Bank also has a \$2,000,000 unsecured federal funds line of credit available with another financial institution, for which no amounts were outstanding as of December 31, 2020 and 2019.

**Note 9. Employee Stock Ownership Plan**

In connection with the Bank's mutual to stock conversion in September 2018, the Bank established the Chesapeake Bank of Maryland Employee Stock Ownership Plan ("ESOP") for all eligible employees. The ESOP purchased 338,560 shares of Company common stock in the Company's initial public offering at \$10.00 per share with the proceeds of a ten (10) year loan from the Company. The interest rate on the ESOP loan is fixed at 5.25%. The Bank intends to make annual contributions to the ESOP that at a minimum will permit the ESOP to repay the principal and interest due on the ESOP debt. However, the Bank may prepay the principal of the note, partially or in full and without penalty or premium at any time and from time to time without prior notice to the holder. Any dividends declared on Company common stock held by the ESOP and not allocated to the account of a participant can be used to repay the loan. As the ESOP loan is repaid, shares of Company common stock pledged as collateral for the loan are released from the loan suspense account for allocation to Plan participants on the basis of each active participant's proportional share of compensation.

Participants vest 100% in their ESOP allocations after three years of service. In connection with the implementation of the ESOP, participants were given credit for past service with the Bank for vesting purposes. Participants will become fully vested upon age 65, death or disability, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon separation from service. The plan reallocates any unvested shares of common stock forfeited upon termination of employment among the remaining participants in the plan.

ESOP compensation represents the average fair market value of the shares of Company common stock allocated or committed to be released as of that date. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends, if any, on allocated shares are recorded as a reduction of retained earnings and dividends, if any, on unallocated shares are recorded as a reduction of the debt service. The ESOP compensation expense for the years ended December 31, 2020 and December 31, 2019 was \$434,372 and \$462,134, respectively.

A summary of ESOP shares is as follows:

|                               | 2020         | 2019         |
|-------------------------------|--------------|--------------|
| Shares allocated to employees | 101,182      | 67,326       |
| Unearned shares               | 236,992      | 270,848      |
| Total ESOP shares             | 338,174      | 338,174      |
| Fair value of unearned shares | \$ 3,147,254 | \$ 3,824,374 |



**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 10. Income Taxes**

The income tax provision reflected in the statements of income consisted of the following components for the years ended December 31, 2020 and 2019:

|                                | <u>2020</u>       | <u>2019</u>       |
|--------------------------------|-------------------|-------------------|
| Income tax expense             |                   |                   |
| Current tax expense            |                   |                   |
| Federal                        | \$ 442,461        | \$ 311,651        |
| State                          | 171,460           | 61,617            |
| Total current expense          | 613,921           | 373,268           |
| Deferred tax (benefit) expense |                   |                   |
| Federal                        | (148,334)         | (31,896)          |
| State                          | (46,036)          | 26,897            |
| Total deferred benefit         | (194,370)         | (4,999)           |
| Total income tax expense       | <u>\$ 419,551</u> | <u>\$ 368,269</u> |

A reconciliation of tax computed at the Federal statutory tax rate of 21% to the actual tax expense for the years ended December 31, 2020 and 2019, are as follows:

|  | <u>2020</u>       | <u>2019</u>       |
|--|-------------------|-------------------|
| Tax at Federal statutory rate              | \$ 286,043        | \$ 267,956        |
| Tax effect of:                             |                   |                   |
| Bank owned life insurance                  | (23,018)          | (25,646)          |
| RSA stock vesting                          | 9,486             | -                 |
| Nondeductible expenses                     | 2,971             | 5,012             |
| Stock-based compensation expense           | 54,054            | 44,921            |
| State income taxes, net of federal benefit | 90,015            | 76,026            |
| Income tax expense                         | <u>\$ 419,551</u> | <u>\$ 368,269</u> |

A reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2020 and 2019, are as follows:

|  | <u>2020</u>  | <u>2019</u>  |
|--|--------------|--------------|
| Tax at Federal statutory rate              | 21.0%        | 21.0%        |
| Tax effect of:                             |              |              |
| Bank owned life insurance                  | (1.7)        | (2.0)        |
| RSA stock vesting                          | 0.7          | -            |
| Nondeductible expenses                     | 0.2          | 0.4          |
| Stock-based compensation expense           | 4.0          | 3.5          |
| State income taxes, net of federal benefit | 6.6          | 5.9          |
| Income tax expense                         | <u>30.8%</u> | <u>28.8%</u> |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 10. Income Taxes (Continued)**

The components of the net deferred tax asset at December 31, 2020 and 2019, were as follows:

|   | <b>2020</b> | <b>2019</b> |
|---|-------------|-------------|
| Deferred income tax assets:             |             |             |
| Deferred compensation                   | \$ 96,640   | \$ 88,477   |
| 2019 Equity Incentive Plan compensation | 126,285     | 93,920      |
| Nonaccrual interest                     | 2,448       | 4,932       |
| Capitalized foreclosed asset expenses   | 338,761     | 318,856     |
| Fair value of loans held for sale       | 41,827      | -           |
| Allowance for loan losses               | 523,992     | 423,536     |
|   | 1,129,953   | 929,721     |
| Deferred income tax liabilities:        |             |             |
| Unrealized gain on securities           | 255,070     | 192,047     |
| Accumulated depreciation                | 14,267      | 8,405       |
| Federal Home Loan Bank stock dividends  | 4,611       | 4,611       |
|   | 273,948     | 205,063     |
| Net deferred income tax asset           | \$ 856,005  | \$ 724,658  |

The Company maintains \$1,453,708 of its retained earnings as a reserve for loan losses for tax purposes. This amount has not been charged against earnings and is a restriction on retained earnings. If this balance in the reserve account is used for anything but losses on mortgage loans or payment of special assessment taxes, it will be subject to federal income taxes.

The Company follows the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2020, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the Company’s financial statements. The Company’s policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were recorded during the period ended December, 31 2020. Generally, the tax years before 2017 are no longer subject to examination by federal, state or local taxing authorities.

**Note 11. Benefit Plans**

**Deferred Compensation Arrangements**

The Bank has deferred compensation agreements with former directors and officers. Under the agreements, participants will be paid deferred compensation funded in part by the proceeds in excess of the cash surrender value of life insurance policies. The Bank recognizes the increase in cash surrender value of the insurance policies as income, which amounted to \$107,632 and \$114,468 during the years ended December 31, 2020 and 2019, respectively.

The Bank’s index retirement benefit plan was converted to a supplemental retirement plan which pays equal annual installments to the plan participants upon retirement. Participants are entitled to receive their retirement benefits commencing thirty days following their normal retirement date. Amounts accrued and included in other liabilities were \$93,375 and \$121,044 at December 31, 2020 and 2019, respectively. The liability is intended to be funded by whole life insurance policies owned by the Bank, insuring the directors.

**Supplemental Executive Retirement Plan**

The Bank has a Supplemental Executive Retirement Plan (“SERP”), which provides supplemental retirement benefits to the Chief Executive Officer of the Bank. The SERP was terminated on September 16, 2020 and provides for a lump sum payment of \$263,583 as of October 1, 2021. The amounts accrued and included in other liabilities related to the Plan as of December 31, 2020 and 2019 were \$257,820 and \$200,483, respectively.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 11. Benefit Plans (Continued)**

Total deferred compensation expense recognized during the years ended December 31, 2020 and 2019 was \$57,337 and \$47,951, respectively.

**Defined Contribution Retirement Plan**

The Bank established a 401(k) plan covering substantially all of its employees. In order to participate, employees must be 18 years of age and have completed one year of service. As of January 1, 2018, the plan provides for the Company to make contributions which will match employee deferrals on a one-to-one basis up to 3% of an employee's eligible compensation and an additional of 50% of the next 2% of an employee's eligible compensation for a total maximum employer contribution of 4%. Participants are 100% vested in their deferrals and employer matching contributions. Additional contributions can be made at the discretion of the Board of Directors based on the Company's performance. Contributions for the years ended December 31, 2020 and 2019 were \$96,347 and \$76,147, respectively.

**Note 12. Stock Based Compensation**

On May 14, 2019, the Board of Directors adopted the 2019 Equity Incentive Plan ("2019 Plan"), which was approved at the Annual Meeting of Stockholders. The 2019 Plan allows for up to 169,280 shares to be issued to employees, executive officers or Directors in the form of restricted stock, and up to 423,200 shares to be issued to employees, executive officers or Directors in the form of stock options. At December 31, 2020, there were 169,280 restricted stock awards granted and 423,200 stock option awards granted under the 2019 Plan.

**Restricted Stock Award**

The specific terms of each restricted stock award are determined by the Compensation Committee at the date of the grant. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the date of the grant. Participants will vest in their share awards at a rate of 20% per year over a five-year period, beginning one year after the date of the plan share award. If service to the Company is terminated for any reason other than death, disability or change in control, the unvested share awards will be forfeited.

The 2019 Equity Incentive Plan Trust ("Trust") has been established to acquire, hold, administer, invest and make distributions from the Trust in accordance with provisions of the 2019 Plan and Trust. The Company contributed sufficient funds to the Trust for the Trust to acquire 169,280 shares of common stock which are held in the Trust subject to the restricted stock award vesting requirements. The 2019 Plan provides that grants to each employee and non-employee director shall not exceed 25% and 5% of the shares available under the 2019 Plan, respectively. Shares awarded to non-employee directors in the aggregate shall not exceed 30% of the shares available under the 2019 Plan.

The following table presents a summary of the activity in the Company's restricted stock for the years ended December 31, 2020 and 2019:

|                                | <b>Shares</b>     | <b>Weighted Average<br/>Grant Date Fair Value</b> |
|--------------------------------|-------------------|---|
| Nonvested at January 1, 2020   | 161,320           | \$ 13.40  |
| Granted                        | 7,960             | 11.90   |
| Vested                         | (32,265)          | 13.40   |
| Forfeited                      | -                 | -   |
| Nonvested at December 31, 2020 | <u>137,015</u>    | <u>\$ 13.31</u>                                   |
| Fair value of vested shares    | <u>\$ 428,479</u> |   |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 12. Stock Based Compensation (Continued)**

|                                 | <b>Shares</b> | <b>Weighted Average<br/>Grant Date Fair Value</b> |
|---------------------------------|---------------|---|
| Nonvested at January 1, 2019    | -             | \$ -  |
| Granted                         | 161,320       | 13.40   |
| Vested                          | -             | -   |
| Forfeited                       | -             | -   |
| Nonvested at December 31, 2019  | 161,320       | \$ 13.40  |
| <br>Fair value of vested shares | <br>\$ -      |   |

The following table outlines the vesting schedule of the nonvested restricted stock awards as of December 31, 2020:

| <b>Year Ending December 31,</b> | <b>Number of Restricted Shares</b> |
|---------------------------------|------------------------------------|
| 2021                            | 32,265                             |
| 2022                            | 32,265                             |
| 2023                            | 37,041                             |
| 2024                            | 33,852                             |
| 2025                            | 1,592                              |
|                                 | 137,015                            |

The Company recorded compensation expense related to restricted stock awards of \$444,016 and \$274,801 during the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there was \$1,537,595 of total unrecognized compensation expense related to nonvested shares granted under the 2019 Plan. The cost is expected to be recognized over a weighted average period of 3.5 years.

**Stock Options**

Under the above 2019 Plan, stock options are granted to provide the Company's directors and key employees with a proprietary interest in the Company as an as incentive to contribute to its success. The Board of Directors of the Company may grant options to eligible employees and non-employee directors based on these factors. The 2019 Plan participants will vest in their options at a rate no more rapid than 20% per year over a five year period, beginning one year after the grant date of the option. Vested options will have an exercise period of ten years commencing on the date of grant. If service to the Company is terminated for any reason other than death, disability or change in control, the unvested options shall be forfeited. The Company recognizes compensation expense during the vesting period based on the fair value of the option on the date of the grant. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical data. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of the options granted represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury rate equal to the expected term of the option at the time of the grant.

The fair value of options granted to date was determined using the following assumptions as of the grant date.

|                                 |              |
|---------------------------------|--------------|
| Grant Date                      | May 14, 2019 |
| Expected Stock Price Volatility | 17.08%       |
| Expected Dividend Yield         | 0.00%        |
| Expected Term (In Years)        | 7.0          |
| Risk-Free Rate                  | 2.30%        |
| Fair Value of Options Granted   | \$ 3.35      |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 12. Stock Based Compensation (Continued)**

|                                 |              |
|---------------------------------|--------------|
| Grant Date                      | May 21, 2020 |
| Expected Stock Price Volatility | 23.07%       |
| Expected Dividend Yield         | 0.00%        |
| Expected Term (In Years)        | 7.0          |
| Risk-Free Rate                  | 0.68%        |
| Fair Value of Options Granted   | \$ 3.07      |

The following table summarizes the Company's stock option activity and related information for the years ended December 31, 2020 and 2019:

| <u>December 31, 2020</u>         | <u>Shares</u>     | <u>Weighted<br/>Average<br/>Exercise Price</u> | <u>Weighted Average<br/>Remaining Contractual<br/>Term (in years)</u> |
|----------------------------------|-------------------|--|---|
| Outstanding at January 1, 2020   | 368,300           | \$ 13.40                                       | 9.4   |
| Granted                          | 54,900            | 11.90  | 9.4   |
| Exercised                        | -                 | -  | -   |
| Forfeited                        | -                 | -  | -   |
| Outstanding at December 31, 2020 | <u>423,200</u>    | <u>\$ 13.21</u>                                | <u>8.6</u>  |
| Fair value of vested shares      | <u>\$ 978,205</u> |  |   |
|                                  |                   |  |   |
| <u>December 31, 2019</u>         | <u>Shares</u>     | <u>Weighted<br/>Average<br/>Exercise Price</u> | <u>Weighted Average<br/>Remaining Contractual<br/>Term (in years)</u> |
| Outstanding at January 1, 2019   | -                 | \$ -   | -   |
| Granted                          | 368,300           | 13.40  | 9.4   |
| Vested                           | -                 | -  | -   |
| Forfeited                        | -                 | -  | -   |
| Outstanding at December 31, 2019 | <u>368,300</u>    | <u>\$ 13.40</u>                                | <u>9.4</u>  |
| Fair value of vested shares      | <u>\$ -</u>       |  |   |

The Company recorded compensation expense related to stock options of \$267,540 and \$156,845 during the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 there was \$977,962 of total unrecognized compensation expense related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted average period of 3.6 years. The intrinsic value of a stock option is the amount that the market value of the underlying stock exceeds the exercise price of the option. Based upon a fair market value of \$13.28 at December 31, 2020, the intrinsic value of the stock is currently less than the weighted average price of the option.

**Note 13. Stock Repurchases**

On May 14, 2019, the Board of Directors authorized the repurchase of up to 169,280 shares of the Company's outstanding common stock for the Trust in accordance with the 2019 Plan. The repurchase program was equal to the number of restricted stock awards eligible to be granted in the 2019 Plan and 169,280 shares were repurchased during the year ended December 31, 2019.

On December 2, 2019, the Board of Directors authorized a plan to repurchase up to \$6,000,000 of the Company's outstanding common stock. The repurchases were made during a one-year period, in privately negotiated transactions, or in such other manner as would comply with the applicable policy, laws and regulations.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 13. Stock Repurchases (Continued)**

The following table sets forth information in connection with repurchases of the Company's shares of common stock during the periods listed.

| <u>Period</u>         | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Value of Shares Purchased as Part of Publicly Announced Plans</u> | <u>Maximum Value of Shares That May Yet Be Purchased Under the Plan</u> |
|-----------------------|---|-------------------------------------|--|---|
| December 2 – 31, 2019 | 23,495                                  | \$ 14.15                            | \$ 332,545   | \$ 5,667,455  |
| January 1 – 31, 2020  | 76,675                                  | 14.23                               | 1,423,565  | 4,576,435   |
| February 1 – 29, 2020 | 7,500                                   | 14.34                               | 1,531,121  | 4,468,879   |
| March 1 – 31, 2020    | 262,588                                 | 13.55                               | 5,089,565  | 910,435   |
| April 1 – 30, 2020    | 8,084                                   | 11.38                               | 5,181,581  | 818,419   |
| May 1 – 31, 2020      | 21,700                                  | 11.94                               | 5,440,665  | 559,335   |
| June 1 – 30, 2020     | 33,200                                  | 12.05                               | 5,840,800  | 159,200   |
| July 1 – 31, 2020     | 12,900                                  | 12.19                               | 5,998,057  | 1,943   |
| August 1 – 31, 2020   | 161                                     | 12.07                               | 6,000,000  | -   |

On August 18, 2020, upon completion of the previous plan dated December 31, 2019, the Board of Directors authorized a plan to repurchase up to an additional \$3,500,000 of the Company's outstanding common stock. The repurchases will be made during a one-year period on the open market, in privately negotiated transactions, or in such other manner as will comply with applicable policy, laws and regulations.

The following table sets forth information in connection with repurchases of the Company's shares of common stock during the periods listed.

| <u>Period</u>          | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Value of Shares Purchased as Part of Publicly Announced Plans</u> | <u>Maximum Value of Shares That May Yet Be Purchased Under the Plan</u> |
|------------------------|---|-------------------------------------|--|---|
| August 18 – 31, 2020   | 19,864                                  | \$ 12.03                            | \$ 239,063   | \$ 3,260,937  |
| September 1 – 30, 2020 | 51,500                                  | 12.04                               | 859,140  | 2,640,860   |
| October 1 – 31, 2020   | 1,000                                   | 12.30                               | 871,436  | 2,628,564   |
| November 1 – 30, 2020  | 5,500                                   | 13.04                               | 943,162  | 2,556,838   |
| December 1 – 31, 2020  | 17,200                                  | 13.21                               | 1,170,446  | 2,329,554   |

**Note 14. Earnings Per Common Share**

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Net income available to common stockholders is net income to the Company. Unallocated common shares held by the ESOP are not included in the weighted average number of common shares outstanding for purposes of calculating earnings per share until they are committed to be released. Basic earnings per share excludes dilution and is computed by dividing net income by weighted average number of common shares outstanding during the period. Dilutive earnings per share reflects the potential dilution that could occur if stock options were exercised and is computed by dividing net income by the dilutive weighted average number of common shares outstanding during the period. The computation of diluted earnings per share does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 14. Earnings Per Common Share (Continued)**

|  | Year Ended December 31, |            |
|--|-------------------------|------------|
|  | 2020                    | 2019       |
| Net income   | \$ 942,557              | \$ 907,713 |
| Weighted average common shares outstanding, basic    | 3,579,966               | 3,942,698  |
| Weighted average common shares outstanding, dilutive | 3,579,966               | 3,949,443  |
| Earnings per common share, basic and diluted         | \$ 0.26                 | 0.23       |

**Note 15. Regulatory Capital Requirements**

Information presented for December 31, 2020 and 2019, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Under these capital requirements 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 the regulatory accounting practices. The Bank's capital amounts and classifications are subject to qualitative judgements by regulators about components, risk-weightings and other factors.

Federal bank regulators require the Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity Tier 1 capital to risk-weighted assets of 4.5%, Tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 8.0%. At December 31, 2020, the Bank was "well capitalized" under the regulatory framework for prompt corrective action. To be "well capitalized," the Bank must maintain minimum leverage, common equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. There have been no conditions or events since December 31, 2020 that management believes have changed the Bank's category.

The actual and required capital amounts and ratios of the Bank as of December 31, 2020 and 2019 were as follows:

|  | Actual    |        | Capital Adequacy Purposes |       | To Be Well Capitalized Under the Prompt Corrective Action Provision |        |
|--|-----------|--------|---------------------------|-------|---|--------|
|  | Amount    | Ratio  | Amount                    | Ratio | Amount  | Ratio  |
| <b>As of December 31, 2020:</b>                        |           |        |                           |       |   |        |
| Common equity tier 1 capital (to risk-weighted assets) | \$ 43,798 | 28.38% | \$ 6,944                  | ≥4.5% | \$ 10,030   | ≥6.5%  |
| Total risk-based capital (to risk-weighted assets)     | 45,570    | 29.53% | 12,345                    | ≥8.0% | 15,431  | ≥10.0% |
| Tier 1 capital (to risk-weighted assets)               | 43,798    | 28.38% | 9,259                     | ≥6.0% | 12,345  | ≥8.0%  |
| Tier 1 capital (to average assets)                     | 43,798    | 18.66% | 9,387                     | ≥4.0% | 11,734  | ≥5.0%  |
| <b>As of December 31, 2019:</b>                        |           |        |                           |       |   |        |
| Common equity tier 1 capital (to risk-weighted assets) | \$ 41,635 | 27.74% | \$ 6,755                  | ≥4.5% | \$ 9,757  | ≥6.5%  |
| Total risk-based capital (to risk-weighted assets)     | 43,054    | 28.68% | 12,008                    | ≥8.0% | 15,010  | ≥10.0% |
| Tier 1 capital (to risk-weighted assets)               | 41,635    | 27.74% | 9,006                     | ≥6.0% | 12,008  | ≥8.0%  |
| Tier 1 capital (to average assets)                     | 41,635    | 19.08% | 8,731                     | ≥4.0% | 10,913  | ≥5.0%  |

The Basel III rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier I capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is 2.5% of risk-weighted assets.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 15. Regulatory Capital Requirements (Continued)**

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies were required to develop a “Community Bank Leverage Ratio” (the ratio of a Bank’s Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution’s risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. A financial institution can elect to be subject to this new definition. The federal banking agencies set the minimum capital for the Community Bank Leverage Ratio at 9.00%. Pursuant to the CARES Act, the federal banking agencies in April 2020 issued interim final rules to set the Community Bank Leverage Ratio at 8% beginning in the second quarter of 2020 through the end of 2020. Beginning in 2021, the Community Bank Leverage Ratio will increase to 8.5% for the calendar year. Community banks will have until Jan. 1, 2022, before the Community Bank Leverage Ratio requirement will return to 9%. The Bank did not elect to adopt the Community Bank Leverage Ratio.

**Note 16. Fair Value Measurements**

ASC Topic 820 provides a framework for measuring and disclosing fair value under U.S. GAAP. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or a nonrecurring basis (for example, impaired loans).

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

**Level 1** – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2** – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.

**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement and based on the Bank’s own assumptions about market participants’ assumptions.

The following is a description of the valuation methods used for instruments measured at fair value as the general classification of such instruments pursuant to the applicable valuation method.



**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 16. Fair Value Measurements (Continued)**

***Fair value measurements on a recurring basis***

**Securities available for sale** – If quoted prices are available in an active market for identical assets, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and securities are included within Level 2 of the hierarchy. As of December 31, 2020 and 2019, the Bank has categorized its investment securities available for sale as follows:

|  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|----------------|----------------|--------------|
| <b>December 31, 2020</b>                       |                |                |                |              |
| Securities available for sale:                 |                |                |                |              |
| U.S. Government Agency and Federal obligations | \$ -           | \$ 2,554,013   | \$ -           | \$ 2,554,013 |
| Residential mortgage-backed securities         | -              | 13,989,511     | -              | 13,989,511   |
| <b>December 31, 2019</b>                       |                |                |                |              |
| Securities available for sale:                 |                |                |                |              |
| U.S. Government Agency and Federal obligations | \$ -           | \$ 9,544,342   | \$ -           | \$ 9,544,342 |
| Residential mortgage-backed securities         | -              | 26,010,539     | -              | 26,010,539   |
| Municipal securities                           | -              | 1,535,710      | -              | 1,535,710    |

***Fair value measurements on a nonrecurring basis***

**Impaired loans** – The Bank measures impairment generally based on the fair value of the loan’s collateral. Fair value is generally determined based upon independent appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of December 31, 2020 and 2019 the fair values consisted of loan balances of \$223,413 and \$2,828,148 that have been written down by \$7,598 and \$681, respectively, as a result of specific loan loss allowances.

**Foreclosed real estate** – The Bank’s foreclosed real estate is measured at fair value less estimated cost to sell. As of December 31, 2020 and 2019, the fair value of foreclosed real estate was estimated to be \$775,000 and \$845,000, respectively. Fair value was determined based on offers and/or appraisals. Cost to sell the real estate was based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3.

|                          | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------|----------------|----------------|----------------|--------------|
| <b>December 31, 2020</b> |                |                |                |              |
| Impaired loans           | \$ -           | \$ -           | \$ 215,815     | \$ 215,815   |
| Foreclosed real estate   | -              | -              | 775,000        | 775,000      |
| <b>December 31, 2019</b> |                |                |                |              |
| Impaired loans           | \$ -           | \$ -           | \$ 2,827,467   | \$ 2,827,467 |
| Foreclosed real estate   | -              | -              | 845,000        | 845,000      |

The following table presents quantitative information about Level 3 fair value measurements for selected financial instruments measured at fair value on a non-recurring basis at December 31, 2019 and 2018:

|                          | <u>Fair Value</u> | <u>Value Technique(s)</u>                | <u>Unobservable Inputs</u>                                      | <u>Range or Rate Used</u> |
|--------------------------|-------------------|--|---|---------------------------|
| <b>December 31, 2020</b> |                   |  |   |                           |
| Impaired loans           | \$ 215,815        | Appraised value<br>Discounted cash flows | Discount to reflect current market conditions<br>Discount rates | 5.00%<br>5.75 - 7.50%     |
| Foreclosed real estate   | \$ 775,000        | Appraised value                          | Discount to reflect current market conditions                   | 10.92%                    |
| <b>December 31, 2019</b> |                   |  |   |                           |
| Impaired loans           | \$ 2,827,467      | Appraised value<br>Discounted cash flows | Discount to reflect current market conditions<br>Discount rates | 5.00- 10.00%<br>7.50%     |
| Foreclosed real estate   | 845,000           | Appraised value                          | Discount to reflect current market conditions                   | 10.11%                    |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 16. Fair Value Measurements (Continued)**

The remaining financial assets and liabilities are not reported on the balance sheet at fair value on a recurring basis. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

The estimated fair values of the Bank's financial instruments, whether carried at cost or fair value are as follows:

| Fair Value Measurements at December 31, 2020 Using |   |   |  |         |               |
|--|---|---|--|---------|---------------|
|  | Quoted<br>Prices in<br>Active<br>Market for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |         | Fair<br>Value |
| Carrying<br>Value                                  | (dollars in thousands)  |   |  |         |               |
| Financial assets:                                  |   |   |  |         |               |
| Cash and cash equivalents                          | \$ 47,608   | \$ 47,608   | \$ -   | \$ -    | \$ 47,608     |
| Time deposits in other banks                       | 6,448   | -   | 6,726  | -       | 6,726         |
| Securities available for sale                      | 16,544  | -   | 16,544   | -       | 16,544        |
| Federal Home Loan Bank stock                       | 411   | -   | 411  | -       | 411           |
| Loans held for sale                                | 6,074   | -   | 6,226  | -       | 6,226         |
| Loans, net (1)                                     | 148,579   | -   | -  | 152,294 | 152,294       |
| Accrued interest receivable                        | 605   | -   | 605  | -       | 605           |
| Financial liabilities:                             |   |   |  |         |               |
| Deposits   | 174,780   | -   | 170,063  | -       | 170,063       |
| Borrowings   | 5,000   | -   | 5,199  | -       | 5,199         |

| Fair Value Measurements at December 31, 2019 Using |   |   |  |         |               |
|--|---|---|--|---------|---------------|
|  | Quoted<br>Prices in<br>Active<br>Market for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |         | Fair<br>Value |
| Carrying<br>Value                                  | (dollars in thousands)  |   |  |         |               |
| Financial assets:                                  |   |   |  |         |               |
| Cash and cash equivalents                          | \$ 5,987  | \$ 5,987  | \$ -   | \$ -    | \$ 5,987      |
| Time deposits in other banks                       | 7,936   | -   | 8,127  | -       | 8,127         |
| Securities available for sale                      | 37,091  | -   | 37,091   | -       | 37,091        |
| Federal Home Loan Bank stock                       | 300   | -   | 300  | -       | 300           |
| Loans held for sale                                | 1,730   | -   | 1,823  | -       | 1,823         |
| Loans, net (1)                                     | 158,245   | -   | -  | 161,954 | 161,954       |
| Accrued interest receivable                        | 655   | -   | 655  | -       | 655           |
| Financial liabilities:                             |   |   |  |         |               |
| Deposits   | 156,441   | -   | 145,617  | -       | 145,617       |
| Borrowings   | 2,500   | -   | 2,550  | -       | 2,550         |

(1) Carrying amount is net of unearned income and the allowance for loan losses.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 17. Commitments and Contingencies**

The Bank is required to maintain certain average reserve balances as established by the Federal Reserve Bank. The amounts of this reserve balance for the reserve computation period which was satisfied through the restriction of vault cash held at the Bank's branches. No additional reserves were required to be maintained at the Federal Reserve Bank of Richmond.

The Bank is 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 originate loans. These loans involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of these instruments. The Bank uses the same credit policies for these instruments as it does for on-balance sheet instruments. At December 31, 2020 and 2019, the Bank had in other liabilities \$45,000 and \$40,000, respectively, of accrued credit losses related to these financial instruments with off-balance sheet risk.

The commitment to originate loans is an agreement to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require the payment of a fee. The Bank expects that a large majority of its commitments will be fulfilled subsequent to the balance sheet date and therefore, represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower.

Loan commitments representing off-balance sheet risk were as follows:

|   | <b>December 31,</b> |               |
|---|---------------------|---------------|
|   | <b>2020</b>         | <b>2019</b>   |
| Commitments to extend credit                  |                     |               |
| Residential construction                      | \$ 9,845,921        | \$ 11,893,781 |
| Residential real estate                       | 153,000             | 500,000       |
| Commercial real estate and other construction | 2,929,644           | 2,834,834     |
| Commitments under available lines of credit   |                     |               |
| Home equity lines of credit                   | 4,619,267           | 5,301,358     |
| Commercial lines of credit                    | 1,210,001           | 2,475,839     |
| Consumer lines of credit                      | 330,435             | 876,623       |
| Letters of credit                             | 467,612             | 491,432       |
|   | \$ 19,555,880       | \$ 24,373,867 |

In the normal course of business, the Bank sells loans in the secondary market. As is customary in such sales, the Bank provides indemnification to the buyer under certain circumstances. This indemnification may include the obligation to repurchase loans or refund fees by the Bank, under certain circumstances. In most cases, repurchases and losses are rare, and no provision is made for losses at the time of the sale. When repurchases and losses are probable and reasonably estimable, a provision is made in the financial statements for such estimated losses. There was no provision for losses from repurchases for December 31, 2020 and 2019.

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 18. Condensed Parent Company Only Financial Information**

Presented below are the condensed statements of financial condition as of December 31, 2020 and 2019, and related condensed statements of operations and condensed statements of cash flows for CBM Bancorp, Inc. for the years ended December 31, 2020 and 2019:

**Condensed Statements of Financial Condition**

|   | <b>December 31, 2020</b> | <b>December 31, 2019</b> |
|---|--------------------------|--------------------------|
| <b>Assets</b>                               |                          |                          |
| Cash in bank subsidiary                     | \$ 6,610,083             | \$ 15,034,833            |
| Interest bearing deposits in other banks    | 79,768                   | -                        |
| ESOP loan receivable                        | 2,369,920                | 2,708,480                |
| Investment in bank subsidiary               | 44,470,155               | 42,140,741               |
| Other assets                                | 32,789                   | 57,454                   |
| Total assets                                | \$ 53,562,715            | \$ 59,941,508            |
| <b>Liabilities and Stockholders' Equity</b> |                          |                          |
| <b>Liabilities</b>                          |                          |                          |
| Other liabilities                           | \$ -                     | \$ 6,132                 |
| Total liabilities                           | -                        | \$ 6,132                 |
| <b>Stockholders' Equity</b>                 |                          |                          |
| Common stock                                | 36,906                   | 42,085                   |
| Additional paid in capital                  | 34,735,278               | 41,210,056               |
| Retained earnings                           | 22,397,154               | 23,243,847               |
| Unearned common stock held by:              |                          |                          |
| Employee Stock Ownership Plan               | (2,369,920)              | (2,708,480)              |
| 2019 Equity Incentive Plan                  | (1,908,570)              | (2,357,994)              |
| Accumulated other comprehensive income      | 671,867                  | 505,862                  |
| Total stockholders' equity                  | 53,562,715               | 59,935,376               |
| Total liabilities and stockholders' equity  | \$ 53,562,715            | \$ 59,941,508            |

**Condensed Statements of Operations**

|   | <b>For the Years Ended December 31,</b> |             |
|---|---|-------------|
|   | <b>2020</b>                             | <b>2019</b> |
| <b>Interest income</b>  |   |             |
| Income on ESOP loan   | \$ 142,195                              | \$ 159,970  |
| Interest on bank deposits                                     | 173,611                                 | 271,425     |
| Total interest income   | 315,806                                 | 431,395     |
| <b>Non-interest expense</b>                                   |   |             |
| Compensation expense  | 135,424                                 | -           |
| Professional fees   | 188,153                                 | 233,774     |
| Other operating expenses                                      | 99,000                                  | 102,388     |
| Total non-interest expense                                    | 422,577                                 | 336,162     |
| Net (loss) income before tax (benefit) expense                | (106,771)                               | 95,233      |
| <b>Income tax (benefit) expense</b>                           | (31,846)                                | 26,206      |
| (Loss) income before equity in undistributed earnings of Bank | (74,925)                                | 69,027      |
| Equity in undistributed earnings of Bank                      | 1,017,482                               | 838,686     |
| Net income  | \$ 942,557                              | \$ 907,713  |

**CBM Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 18. Condensed Parent Company Only Financial Information (Continued)**

**Condensed Statements of Cash Flows**

|  | <b>For the Years Ended December 31,</b> |                      |
|--|---|----------------------|
|  | <b>2020</b>                             | <b>2019</b>          |
| <b>Cash flows from operating activities:</b>                                     |   |                      |
| Net income   | \$ 942,557                              | \$ 907,713           |
| Adjustments to reconcile net income to net cash provided by operating activities |   |                      |
| Equity in undistributed net income of Bank                                       | (1,017,482)                             | (838,686)            |
| Decrease (increase) in other assets  | 24,666                                  | (47,381)             |
| (Decrease) increase in other liabilities   | (6,132)                                 | 632                  |
| Net cash (used in) provided by operating activities                              | <u>(56,391)</u>                         | <u>22,278</u>        |
| <b>Cash flows from investing activities:</b>                                     |   |                      |
| Principal collected on ESOP loan   | <u>338,560</u>                          | <u>338,560</u>       |
| Net cash provided by (used in) investing activities                              | <u>338,560</u>                          | <u>338,560</u>       |
| <b>Cash flows from financing activities:</b>                                     |   |                      |
| Repurchase of common stock for 2019 Equity Incentive Plan                        | -                                       | (2,357,994)          |
| Repurchase of common stock   | (6,837,901)                             | (332,545)            |
| Cash dividends on common stock   | <u>(1,789,250)</u>                      | <u>-</u>             |
| Net cash used in financing activities  | <u>(8,621,151)</u>                      | <u>(2,690,539)</u>   |
| Net decrease in cash and cash equivalents  | (8,344,982)                             | (2,329,701)          |
| Cash and cash equivalents, beginning balance                                     | <u>15,034,833</u>                       | <u>17,634,534</u>    |
| Cash and cash equivalents, ending balance  | <u>\$ 6,689,851</u>                     | <u>\$ 15,034,833</u> |

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## BOARD OF DIRECTORS

**William J. Bocek, Jr.**  
Chairman of CBM Bancorp, Inc.  
Chairman and Chief Executive Officer  
of Chesapeake Bank of Maryland  
Certified Public Accountant

**William W. Whitty, Jr.**  
Senior Vice President and Principal  
Mackenzie Commercial Real Estate  
Services, LLC

**Glenn C. Ercole, Jr.**  
Principal with GCE Real Estate, LLC

**Joseph M. Solomon**  
President of CBM Bancorp, Inc.  
President and Managing Officer of  
Chesapeake Bank of Maryland

**Gail E. Smith**  
Retired  
Former Executive Vice President  
and Chief Operating Officer of  
Chesapeake Bank of Maryland

**Francis X. Bossle, Jr.**  
Retired  
Former Executive Vice President  
of Northstar Mortgage, LLC

**Benny C. Walker**  
Retired  
Former Principal of Weyrich,  
Cronin, and Sorra  
Certified Public Accountant

## EXECUTIVE OFFICERS

**William J. Bocek, Jr.**  
Chairman of CBM Bancorp, Inc.  
Chief Executive Officer of  
Chesapeake Bank of Maryland

**Joseph M. Solomon**  
President of CBM Bancorp, Inc.  
President and Managing Officer of  
Chesapeake Bank of Maryland

**Jodi L. Beal, CPA**  
Executive Vice President  
Chief Financial Officer of  
CBM Bancorp, Inc. and  
Chesapeake Bank of Maryland

## OFFICE LOCATIONS

**Corporate Office**  
2001 East Joppa Road  
Baltimore, Maryland 21234

**Arbutus**  
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Arbutus, Maryland 21227

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Pasadena, Maryland 21122

**Bel Air**  
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Bel Air, Maryland 21015

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**Special Counsel**  
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Washington, DC 20003

**Transfer Agent and Registrar**  
American Stock Transfer  
& Trust Company, LLC  
6201 15<sup>th</sup> Avenue  
Brooklyn, New York 11219  
800-937-5449  
[www.astfinancial.com](http://www.astfinancial.com)

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410-665-7600  
[www.chesapeakebank.com](http://www.chesapeakebank.com)

**Annual Meeting**  
The 2021 Annual Meeting of  
Shareholders will be held on  
May 12, 2021 at 10:30 a.m., at  
Chesapeake Bank of Maryland  
2001 East Joppa Road  
Baltimore, Maryland 21234