MUTUAL FEDERAL BANCORP, INC.
CHICAGO, ILLINOIS

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Mutual Federal Bancorp, Inc.
Chicago, Illinois

Opinion

We have audited the consolidated financial statements of Mutual Federal Bancorp, Inc., which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Crowe LLP

Crowe LLP

Oak Brook, Illinois
May 17, 2022

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2021 and 2020
(Dollar amounts in thousands except per share data)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 22,973	$ 15,465
Securities available-for-sale	99	165
Loans held for sale, at fair value	6,619	17,097
Loans, net of allowance for loan losses of $950 at December 31, 2021 and $921 at December 31, 2020	58,637	51,160
Real estate owned, acquired through foreclosure	882	765
Premises and equipment, net	1,678	1,730
Federal Home Loan Bank stock, at cost	900	900
Accrued interest receivable	309	378
Other assets	276	822
Total assets	$ 92,373	$ 88,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest-bearing deposits	$ 3,175	$ 2,575
Interest-bearing deposits	65,663	62,270
Total deposits	68,838	63,845
Federal Home Loan Bank advances	5,000	5,000
Advance payments by borrowers for taxes and insurance	908	860
Accrued interest payable and other liabilities	700	2,212
Total liabilities	75,446	71,917
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized at December 31, 2021 and 2020	—	—
Common stock, $0.01 par value, 12,000,000 shares authorized, 3,636,875 shares issued at December 31, 2021 and 2020	36	36
Additional paid-in capital	10,208	10,199
Treasury stock, at cost	(3,075)	(3,075)
Retained earnings	9,756	9,401
Accumulated other comprehensive income	2	4
Total stockholders' equity	16,927	16,565
Total liabilities and stockholders' equity	$ 92,373	$ 88,482

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2021 and 2020
(Dollar amounts in thousands except per share data)

	For the years ended December 31, 2021	For the years ended December 31, 2020
Interest and dividend income:		
Loans, including fees	$ 3,187	$ 3,374
Securities	3	12
Interest earning deposits	48	66
Total interest and dividend income	3,238	3,452
Interest expense:		
Deposits	296	421
Borrowings	15	40
Total interest expense	311	461
Net interest income	2,927	2,991
Provision for loan losses	---	200
Net interest income after provision for loan losses	2,927	2,791
Non-interest income:		
Mortgage banking income	4,644	7,976
Gain on sale of loans held for investment	188	91
Gain on loan transferred to real estate owned	296	—
Gain on sale of real estate owned	36	—
Other income	102	261
Total non-interest income	5,266	8,328
Non-interest expense:		
Compensation and benefits	5,725	7,811
Occupancy and equipment	378	365
Data processing	448	458
Professional fees	434	334
Real estate owned	72	110
Other expense	781	726
Total non-interest expense	7,838	9,804
Income before income taxes	355	1,315
Income tax expense	—	—
Net income	$ 355	$ 1,315

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2021 and 2020
(Dollar amounts in thousands except per share data)

	For the years ended December 31, 2021	For the years ended December 31, 2020
Net income	$ 355	$ 1,315
Other comprehensive income:		
Unrealized gain/losses on securities:		
Unrealized holding gain (loss) arising during the period	(2)	3
Tax effect	—	---
Total other comprehensive income	(2)	3
Comprehensive income	$ 353	$ 1,318

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2021 and 2020
(Dollar amounts in thousands except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	$ 36	$ 10,199	$ (3,075)	$ 8,085	$ 1	$ 15,246
Net income	—	—	—	1,315	—	1,315
Other comprehensive income	—	—	—	—	3	3
Stock option shares earned	—	—	—	1	—	1
Balance at December 31, 2020	36	10,199	(3,075)	9,401	4	16,565
Net income	—	—	—	355	—	355
Other comprehensive income	—	—	—	—	(2)	(2)
Stock option shares earned	—	9	—	—	—	9
Balance at December 31, 2021	$ 36	$ 10,208	$ (3,075)	$ 9,756	$ 2	16,927

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020
(Dollar amounts in thousands except per share data)

	For the years ended December 31, 2021	For the years ended December 31, 2020
Cash flows from operating activities		
Net income	$ 355	$ 1,315
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	—	200
Loss on impairment of real estate owned	—	23
Gain on sale of real estate owned	(36)	—
Gain on loan transferred to real estate owned	(296)	—
Depreciation	71	52
Loans originated with intent to sell	(147,299)	(235,043)
Proceeds from sales of loans held for sale	161,972	232,145
Gain on sales of loans held for sale	(4,195)	(6,832)
Proceeds from sales of loans held for investment	6,461	2,989
Gain on sales of loans held for investment	(188)	(91)
Gain on sale of land held for sale	—	(53)
Net amortization (accretion) of securities	1	(3)
Option expense	9	1
Change in accrued interest receivable and other assets	230	(609)
Change in accrued interest payable and other liabilities	(1,128)	1,305
Net cash provided by (used in) operating activities	15,957	(4,958)
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of securities available-for-sale	63	1,077
Proceeds from sales of real estate owned	801	---
Net (increase) decrease in FHLB stock	—	(712)
Net (increase) decrease in loans held-for-investment	(14,335)	2,598
Proceeds from sale of land held for sale	—	1,303
Additions of premises and equipment	(19)	(320)
Net cash provided by (used in) investing activities	(13,490)	(1,250)
Cash flows from financing activities		
Net increase in deposits	4,993	8,727
Proceeds from Federal Home Loan Bank advances	5,000	18,000
Repayment of Federal Home Loan Bank advances	(5,000)	(13,000)
Net change in advance payments by borrowers for taxes and insurance	48	57
Net cash provided by financing activities	5,041	13,784
Net increase in cash and cash equivalents	7,508	7,576
Cash and cash equivalents at beginning of period	15,465	7,889
Cash and cash equivalents at end of period	$ 22,973	$ 15,465
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 303	$ 581
Loans transferred to real estate owned	586	---
Loans transferred to loans held for sale	6,273	2,898

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Mutual Federal Bancorp, Inc., and its wholly owned subsidiary Mutual Federal Bank ("the Bank") and its wholly owned subsidiaries, EMEFES Service Corporation and 2212 Holdings, LLC (together referred to as "the Company"). Intercompany transactions and balances are eliminated in consolidation. As of December 31, 2021, Mutual Federal Bancorp, MHC, ("the MHC") was the majority stockholder of the Company. The MHC is owned by the depositors of the Bank. The financial statements do not include the transactions and balances of the MHC. EMEFES Service Corporation is an insurance agency that sells insurance products to the Bank's customers. The insurance products are underwritten and provided by a third party. 2212 Holdings, LLC was established to hold and manage real estate acquired through foreclosure.

The Company provides financial services primarily through its office in Chicago, Illinois. The Company's primary deposit products are checking, savings, money market, and certificate of deposit accounts, and its primary lending products are residential and commercial mortgage loans and commercial business loans. The Company originates a significant amount of residential one-to-four family loans, which are priced and originated following underwriting standards that are consistent with guidelines established by the major buyers in the secondary market. The majority of such loans are sold in the secondary market. Substantially all loans are secured by specific items of collateral, including one-to-four family and multifamily residential and commercial real estate. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the Chicago metropolitan area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through May 17, 2022 which is the date the financial statements were available to be issued.

In the first quarter of 2020 a strain of the coronavirus surfaced and spread around the world, including in the State of Illinois, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. During 2020 and into 2021 the Company's operating area experienced closures of business, restrictions on personal contact, and requests by government officials to remain in isolation. Though certain restrictions have been lifted and the general business climate appears to be improving it remains possible that the operations and business results of the Company could be materially adversely affected. Significant estimates as disclosed in Note 1, including the allowance for loan losses, valuation of securities and other investments, may be materially adversely impacted by national and local events designed to contain the coronavirus.

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and deposits held with other financial institutions. Net cash flows are reported for loans held for investment and deposit transactions, FHLB stock, and advance payments by borrowers for taxes and insurance.

Securities: Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank (FHLB) Stock: The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued but not received for a loan placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

If the Company determines at a later date a particular loan or pool of loans will be sold, the loan or loans are reclassified to loans held for sale. Any related allowance for loan losses is reversed in earnings, and the loan is recorded at its amortized cost basis. Upon transfer to loans held for sale a fair value adjustment is applied in the same manner it is applied for those loans originated for sale.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified, resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and are classified as impaired.

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 evaluated on an individual basis for loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be collateral dependent, the loan is reported, net, at the fair value of the collateral less estimated costs to sell. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent four years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The Company considers loan performance and collateral values in assessing risk for each segment in the loan portfolio, as follows:

- Residential real estate loans, which include both one-to-four family and multi-family properties, are affected by the local residential real estate market, the local economy, and movement in interest rates. The Company evaluates the borrower's repayment ability through a review of credit reports and debt to income ratios. Appraisals are obtained to support the loan amount.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Construction loans which include one-to -four family residencies are also impacted by the local residential real estate market, the economy and interest rates along with variable building component and construction labor costs. Evaluation of the project's cash flows, review of contractor statements and site examination are regularly performed to ensure the borrower's performance is as expected at the loan origination.

- Commercial real estate loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest. Mortgage loans are typically sold with servicing released.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Mortgage Loan Repurchase Reserve: The Company routinely sells one-to-four family residential mortgage loans to secondary mortgage market investors. Under standard representations and warranties clauses in the Company's mortgage sale agreements, the Company may be required to repurchase mortgage loans sold or reimburse the investors for credit losses incurred on those loans if a breach of the contractual representations and warranties occurred. The Company establishes a mortgage repurchase liability in an amount equal to management's estimate of losses on loans for which the Company could have a repurchase obligation or loss reimbursement. The estimated liability incorporates the volume of loans sold in previous periods, default expectations, historical investor repurchase demand and actual loss severity. Provisions to the mortgage repurchase reserve reduce gains on sales of loans.

Real Estate Owned: Assets acquired through or instead of loan foreclosures are initially recorded at fair value, less estimated costs to sell, when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interests in the property to satisfy the loan through a deed in lieu of foreclosure or a similar legal document. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. These assets are subsequently accounted for at lower of cost or fair value less costs to sell.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method, with useful lives ranging from 5 to 39 years. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land Available-for-Sale: The Company purchased a developed lot for $1.5 million in Naperville, Illinois, for the construction of a branch office. At the time the Company was leasing an office in that location; however, the leased branch did not meet expectations and the Company, prior to construction of a new facility, closed the branch. The Company has made the decision to sell the land, and accordingly, it is reported on the balance sheet as available-for-sale. Land available-for-sale is carried at the lower of cost or fair value less costs to sell. The land was sold in 2020.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in net gains on sales of loans.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if necessary, reduces deferred tax assets to the amount expected to be realized. The Company established a reserve against deferred income tax benefits because it could not predict recoverability of the benefits within a reasonable time period.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and penalties related to income tax matters as income tax expense.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available-for-sale that are also recognized as a separate component of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Revenue from Contracts with Customers: The majority of the Company’s revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company’s services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer.

Significant services within the scope of ASC 606 include service charges and debit card interchange income and are included with other income.

- Service charges: Fees from our deposit customers are earned for transaction-based, account maintenance, and overdraft services. Transaction-based fees and overdraft fees are recognized at a point in time since the customer generally has a right to cancel the depository arrangement at any time. The arrangement is considered a day-to-day contract with ongoing renewals and optional purchases, so the duration of the contract does not extend beyond the services already performed. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which we satisfy our performance obligation.

- Debit card interchange income: As with the transaction-based fees on deposit accounts, debit card interchange income is recognized at the point in time the customer’s request is made. Interchange fees are earned from cardholder transactions processed through card association networks. Interchange rates are generally set by the card association networks based upon purchase volumes and other factors. Interchange fees represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

(Dollar amounts in thousands except per share data)

NOTE 2 - SECURITIES

Securities Available-for-Sale: The amortized cost and fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Mortgage backed securities - FHLMC	39	1	—	40
Collateralized mortgage obligations	58	1	—	59
Total available-for-sale	$ 97	$ 2	$ —	$ 99
December 31, 2020				
Mortgage-backed securities - FHLMC	66	3	—	69
Collateralized mortgage obligations	95	1	—	96
Total available-for-sale	$ 161	$ 4	$ ---	$ 165

At year-end 2021 and 2020 there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity.

There were no securities with unrealized losses at December 31, 2021 and 2020.

There were no securities pledged at December 31, 2021 and 2020.

The amortized cost and fair values of debt securities available-for-sale at December 31, 2021 are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	**Fair Value**
Due in one year or less	$ —	$ —
Due from one to five years	—	—
Collateralized mortgage obligations and mortgage-backed securities	97	99
Total	$ 97	$ 99

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS

Loans at year end were as follows:

	2021	2020
Residential real estate:		
One-to-four family	$ 45,955	$ 37,714
Multi-family	7,876	8,749
Construction	2,795	2,317
Commercial real estate	3,361	3,823
Total loans	59,987	52,603
Deferred loan fees, net	(400)	(522)
Allowance for loan losses	(950)	(921)
Loans, net	$ 58,637	$ 51,160

The Company has granted loans to principal officers, directors, and their affiliates. These loans totaled $189 and $199 at December 31, 2021 and 2020.

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2021 and 2020:

2021	Residential Real Estate	Construction	Commercial Real Estate	Total
Allowance for loan losses:				
Beginning balance	$ 822	$ 39	$ 60	$ 921
Provision for loan losses	—	7	(7)	—
Loans charged-off	—	—	—	—
Recoveries	29	—	—	29
Total ending allowance balance	$ 851	$ 46	$ 53	$ 950

2020	Residential Real Estate	Construction	Commercial Real Estate	Total
Allowance for loan losses:				
Beginning balance	$ 642	$ 4	$ 75	$ 721
Provision for loan losses	180	35	(15)	200
Loans charged-off	---	—	—	---
Recoveries	---	—	—	---
Total ending allowance balance	$ 822	$ 39	$ 60	$ 921

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2021and 2020:

	Residential Real Estate	Construction	Commercial Real Estate	Total
2021				
Allowance for loan losses:				
Ending allowance balance:				
Individually evaluated for impairment	$ 35	$ ---	$ 8	$ 43
Collectively evaluated for impairment	816	46	45	907
Total ending allowance balance	$ 851	$ 46	$ 53	$ 950
Loans:				
Loans individually evaluated for impairment	$ 2,413	$ ---	$ 83	$ 2,496
Loans collectively evaluated for impairment	51,418	$ 2,795	3,278	57,491
Total ending loans balance	$ 53,831	$ 2,795	$ 3,361	$ 59,987
2020				
Allowance for loan losses:				
Ending allowance balance:				
Individually evaluated for impairment	$ 45	$ ---	$ 9	$ 54
Collectively evaluated for impairment	777	39	51	867
Total ending allowance balance	$ 822	$ 39	$ 60	$ 921
Loans:				
Loans individually evaluated for impairment	$ 3,752	$ ---	$ 85	$ 3,837
Loans collectively evaluated for impairment	42,711	2,317	3,738	48,766
Total ending loans balance	$ 46,463	$ 2,317	$ 3,823	$ 52,603

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table presents information related to impaired loans by class as of and for the year ended December 31, 2021 and 2020:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
2021			
With no related allowance recorded:			
Residential real estate:			
One-to-four family	$ 1,057	$ 1,244	$ —
Commercial real estate	918	—	—
	1,975	1,244	—
With an allowance recorded:			
Residential real estate:			
One-to-four family	1,169	1,169	35
Commercial real estate	83	83	8
	1,252	1,252	43
Total	$ 3,227	$ 2,496	$ 43
2020			
With no related allowance recorded:			
Residential real estate:			
One-to-four family	$ 2,645	$ 2,046	$ —
Commercial real estate	397	182	—
	3,042	2,228	—
With an allowance recorded:			
Residential real estate:			
One-to-four family	926	956	28
Commercial real estate	653	653	26
	1,579	1,609	54
Total	$ 4,621	$ 3,837	$ 54

The average balance of impaired loans was $3,167 and $4,707 during 2021 and 2020. Cash basis interest earned on impaired loans was $337 and $15 for the years ended December 31, 2021 and 2020.

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

Impaired loans at December 31, 2021 and 2020 were as follows:

	2021	2020
Nonaccrual loans	$ 375	$ 715
Troubled debt restructurings:		
Nonaccrual	119	691
Accruing	2,002	2,431
Total impaired loans	$ 2,496	$ 3,837

The following tables present the recorded investment in non-accrual loans by class as of December 31, 2021 and 2020:

	Non-Accrual
2021	
One-to-Four Family	$ 375
Multi-Family	119
Total	$ 494
2020	
One-to-Four Family	$ 1,224
Multi-Family	182
Total	$ 1,406

There are no loans past due over 90 days and still accruing as of December 31, 2021 and 2020.

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021 and 2020 by class:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Loans Not Past Due	Total
2021						
Residential real estate:						
One-to-four family	$ 122	$ 393	$ 119	$ 634	$ 45,321	$ 45,955
Multi-family	—	—	375	375	7,501	7,876
Construction	$ ---	---	---	---	2,795	2,795
Commercial real estate	—	—	—	—	3,361	3,361
Total	$ 122	$ 393	$ 494	$ 1,009	$ 58,978	$ 59,987
2020						
Residential real estate:						
One-to-four family	$ 305	$ 1,375	$ 1,224	$ 2,904	$ 34,810	$ 37,714
Multi-family	—	---	182	182	8,567	8,749
Construction	---	---	---	---	2,317	2,317
Commercial real estate	---	—	—	---	3,823	3,823
Total	$ 305	$ 1,375	$ 1,406	$ 3,086	$ 49,517	$ 52,603

Troubled Debt Restructurings:

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's underwriting policy.

Loans that are considered troubled debt restructurings ("TDRs") and included in the above impaired loan listing, approximated $2,093 and $3,122 at December 31, 2021 and 2020, respectively. Approximately $43 and $54 in specific reserves were established with respect to these loans as of December 31, 2021 and 2020. The Company has not committed to lend any additional funds, as of December 31, 2021 and 2020, to customers with outstanding loans that are classified as troubled debt restructurings.

TDRs may be returned to accrual status after a sustained period of performance under the modified loan terms and if the Company is reasonably assured of repayment.

TDRs, regardless of performance status, are considered impaired until (1) it is probable that the Company will be able to collect all amounts due according to the modified terms of the restructured loan and (2) the interest rate is equal to or greater than the rate the Company was willing to accept at the time of the restructuring for a new loan with comparable risk. For the years ended December 31, 2021 and 2020 recognized principal net charge-offs/(recoveries) on troubled debt restructurings were not material. To the extent that restructured loans perform according to the contractual terms, and debt service ratios and collateral values improve, and the loan returns to accrual status, the Company will accrete the charge-offs through earnings on a level yield basis.

NOTE 3 - LOANS (Continued)

For the years ending December 31, 2021 and 2020, there were not any material modifications to loans in the form of troubled debt restructurings. During 2020, the Company worked with borrowers impacted by COVID-19 by providing modifications to include deferral of interest and/or principal payments for up to 4 months. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of federal banking regulators. The Company granted payment deferrals on 41 loans with a total principal balance of $11,442. As of December 31, 2020, all the deferral periods have expired, and the borrowers resumed making payments as contractually agreed. No deferral periods began in 2021.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually and classifies them as to credit risk. This analysis includes non-homogeneous loans, such as commercial real estate and commercial loans, and is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

> Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
>
> Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
>
> Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table provides a summary of the loan portfolio by class and credit quality classification as of December 31, 2021 and 2020:

	Pass	Special Mention	Substandard	Doubtful	Total
2021					
Residential real estate:					
One-to-four family	$ 44,495	$ 258	$ 1,202	$ —	$ 45,955
Multi-family	6,685	1,063	128	—	7,876
Construction	2,795	---	---	---	2,795
Commercial real estate	2,939	422	—	—	3,361
Total	$ 56,914	$ 1,743	$ 1,330	$ —	$ 59,987
2020					
Residential real estate:					
One-to-four family	$ 36,102	$ 430	$ 1,182	$ —	$ 37,714
Multi-family	7,507	1,063	179	—	8,749
Construction	2,317	---	---	---	2,317
Commercial real estate	3,313	510	—	—	3,823
Total	$ 49,239	$ 2,003	$ 1,361	$ —	$ 52,603

NOTE 4 - FAIR VALUE MEASUREMENT

Fair value is defined 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. The Company uses a fair value hierarchy to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities: Securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Impaired Loans: The fair value of impaired loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the
independent appraisers to adjust for differences between the comparable sales and income data available.

Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. Troubled debt restructurings that are measured at the present value of estimated future cash flows are not considered to be at fair value.

Loans held for sale: Mortgage loans originated and intended for sale in the secondary market are carried at estimated fair value. The mortgage loan valuations are based on quoted secondary market prices for similar loans and are classified as Level 2. Changes in the fair value of mortgage loans originated and intended for sale in the secondary market and derivative financial instruments are included in gains on sales of loans.

(Dollar amounts in thousands except per share data)

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

Assets measured at fair value on a recurring basis as of December 31, 2021 and 2020 are as follows:

		Fair Value Measurements Using		
Assets Measured on a Recurring Basis		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
At December 31, 2021				
Securities available-for-sale:				
Mortgage backed-securities - FHLMC	40	—	40	—
Collateralized mortgage obligations	59	—	59	—
Total available-for-sale	$ 99	$ —	$ 99	$ —
Loans held for sale	$ 6,619	$ —	$ 6,619	$ —

		Fair Value Measurements Using		
Assets Measured on a Recurring Basis		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
At December 31, 2020				
Securities available-for-sale:				
Mortgage-backed securities - FHLMC	69	—	69	—
Collateralized mortgage obligations	96	—	96	—
Total available-for-sale	$ 165	$ —	$ 165	$ —
Loans held for sale	$ 17,097	$ —	$ 17,097	$ —

The Company has elected the fair value option for loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, the aggregate fair value, contractual balance (including accrued interest), and gain or loss for loans held for sale was as follows:

	2021	**2020**
Aggregate fair value	$ 6,619	$ 17,097
Contractual balance	6,445	16,621
Gain	174	476

(Dollar amounts in thousands except per share data)

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

The total amount of gains from changes in fair value included in earnings for the years ended December 31, 2021 and 2020 for loans held for sale were $3,607 and $6,508, respectively.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2021 and December 31, 2020 are as follows:

December 31, 2021:	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 22,973	$ 22,973	$ —	$ —	$ 22,973
Securities available for sale	99	—	99	—	99
Loans, net	58,637	—	—	58,030	58,030
Derivatives	95	—	95	—	95
Financial liabilities					
FHLB advances	$ 5,000	$ —	$ —	$ 4,996	4,996
Total deposits	68,837	—	—	68,024	$ 68,024

December 31, 2020:	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 15,465	$ 15,465	$ —	$ —	$ 15,465
Securities available for sale	165	—	165	—	165
Loans, net	51,160	—	—	52,050	52,050
Derivatives	319	—	319	—	319
Financial liabilities					
FHLB Advances	$ 5,000	$ ---	$ ---	$ 5,004	$ 5,004
Total deposits	63,845	—	—	63,699	63,699

The methods and assumptions used to estimate fair value are described as follows: Carrying amount is the estimated fair value for cash and cash equivalents. For net loans, total deposits and Federal Home Loan Bank (FHLB) advances, fair value is based on discounted cash flows using current market rates applied to the estimated life. The methods for determining the fair values for securities and land available-for-sale were described previously. The fair value of accrued interest and off-balance sheet items is not considered material.

The Company's derivative financial instruments consist of interest rate lock commitments and forward commitments for the future delivery of these mortgage loans. The fair values of these derivatives are based on quoted prices for similar loans in the secondary market. The market prices are adjusted by a factor, based on the Company's historical data and its judgment about future economic trends, which considers the likelihood that a commitment will ultimately result in a closed loan. These instruments are classified as Level 2. The amounts are included in other assets or other liabilities on the consolidated balance sheets and gains on sale of loans, net in the consolidated statements of operations. The total amount of gains and losses from changes in fair value of derivative financial instruments included in earnings were $95 and $319 for December 31, 2021 and 2020.

(Dollar amounts in thousands except per share data)

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	For the years ended December 31, 2021	2020
Land	$ 807	$ 807
Building	355	355
Building improvements	599	355
Drive-up addition	577	577
Furniture and equipment	639	864
Total cost	2,977	2,958
Accumulated depreciation	(1,299)	(1,228)
	$ 1,678	$ 1,730

Depreciation and amortization expense was $71 and $52 for the years ended December 31, 2021 and 2020.

NOTE 6 - DEPOSITS

Deposits, by major category, are as follows:

	For the years ended December 31, 2021	2020
Non-interest-bearing checking	$ 3,175	$ 2,571
Interest-bearing checking	1,634	1,202
Savings	28,415	26,808
Money market deposit accounts	6,493	4,038
Certificates of deposit	29,121	29,226
	$ 68,838	$ 63,845

The aggregate amount of certificates of deposit with a minimum denomination of $250 was approximately $1,796 and $1,314 at December 31, 2021 and 2020, respectively.

Scheduled maturities of certificates of deposit for the next five years were as follows:

2022	$ 22,803
2023	3,713
2024	1,957
2025	374
2026	274
	$ 29,121

Deposits of related parties totaled approximately $1,094 and $1,179 at December 31, 2021 and 2020, respectively.

(Dollar amounts in thousands except per share data)

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

As of December 31, 2021 and 2020, the Company had $5,000 and $5,000 in fixed-rate Federal Home Loan Bank Advances, maturing May 31, 2022 and December 8, 2021, respectively, with an interest rate of 0.22% and 0.0 %

A blanket lien on all one-to-four family first mortgages and all multi-family first mortgages was pledged as collateral. Loans totaling approximately $42,929 and $39,921 were pledged as collateral as of year-end 2021 and 2020, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $23,124 at year-end 2021.

NOTE 8 - BENEFIT PLANS

On November 29, 2006, the stockholders approved the Mutual Federal Bancorp, Inc. 2006 Stock Option Plan (the "Stock Option Plan"), and the Mutual Federal Bancorp, Inc. 2006 Management Recognition and Retention Plan and Trust Agreement (the "MRP Plan", and collectively with the Stock Option Plan, the "Plans"). A total of 178,206 and 71,282 shares of Company common stock have been reserved for issuance under the Stock Option Plan and the MRP Plan, respectively.

Total compensation cost that has been charged against income for the Stock Option Plan for the years ended December 31, 2021 and 2020, was $8 and $1.

Stock Option Plan

The Company's 2006 Stock Option Plan, which is stockholder-approved, permits the grant of stock options to its officers, directors and employees. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are granted with an exercise price that is no less than the market price of the Company's common stock at the date of grant, have vesting periods of five years, and have 10-year contractual terms.

	Shares	Weighted Average Fair Value on Grant Date	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2021	174,345	$ 0.78	4
Granted	---	---	---
Exercised	—	—	—
Forfeited or expired	—	—	—
Outstanding at December 31, 2021	174,345	$ 0.78	4
Exercisable at December 31, 2021	150,345	$ 0.68	2
Vested at December 31,2021	150,345	$ 0.68	2

As of December 31, 2021, there was $33 of total unrecognized compensation cost related to non-vested stock options granted under the Plan which is expected to be recognized over the following five years.

(Dollar amounts in thousands except per share data)

NOTE 8 - BENEFIT PLANS (Continued)

Stock Award Plan (MRP Plan)

A MRP Plan provides for the issuance of shares to directors and officers. Compensation expense is recognized over the vesting period of the shares based on the market value of the shares at issue date.

Over the life of this plan, the Company has awarded 72,564 shares to Officers and Directors. There were no new grants in 2021 or 2020. All shares granted under the MRP Plan are vested.

401(k) Plan

The Company has a 401(k) profit sharing plan covering substantially all employees who have attained the age of 21 and have completed three months of service. Following three months of service, the Company matches 100% of employee contributions up to 3% of compensation, and 50% of employee contributions over 3% of compensation but which do not exceed 5% of compensation. The Company does not match employee contributions over 5% of compensation. The matching contribution expense was $175 and $147
for the years ended December 31, 2021 and 2020. The 401(k) profit sharing plan also provides for a discretionary profit sharing contribution determined annually by the Board of Directors. The Board approved no discretionary contributions for the years ended December 31, 2021 and 2020

.

NOTE 9 - INCOME TAXES

Income tax expense (benefit) was as follows.

	For the years ended December 31,	
	2021	**2020**
Current tax expense	$ 114	$ 375
Deferred tax expense (benefit)	—	—
Change in valuation allowance	(114)	(375)
	$ —	$ —

Effective tax rates differ from the federal statutory rate of 21% applied to income before income taxes due to the effect of state income tax, stock-based compensation and changes in valuation allowances.

Deferred tax assets and liabilities at December 31 consist of the following.

	For the years ended December 31,	
	2021	**2020**
Gross deferred tax assets	$ 2,162	$ 2,276
Gross deferred tax liabilities	(1)	(1)
Valuation allowance for deferred tax assets	(2,162)	(2,276)
Net deferred tax liabilities	$ (1)	$ (1)

NOTE 9 - INCOME TAXES (Continued**)**

Temporary differences between the amounts reported in the consolidated financial statements and the tax basis of assets and liabilities result in deferred taxes. Temporary differences resulting in deferred tax assets arise primarily from the allowance for loan losses, non-accrual loans, capital losses, and net operating losses. In addition, a deferred tax liability of $(2) and $(1) is allocated to the net unrealized gains on securities available-for-sale at December 31, 2021 and 2020.

For the years ended December 31, 2021 and 2020, a full valuation allowance was recorded against net deferred tax assets, including net operating loss tax benefits, as the Company could not forecast a sustained level of sufficient profitability over a reasonably short time period.

At year end 2021 and 2020, the Company had federal net operating loss carryforwards of approximately $4,972 and $4,254, respectively, which will begin to expire after 2030 if unused. At year end 2021 and 2020, the Company had Illinois net operating loss carryforwards of approximately $8,404 and $7,715, respectively, which will begin to expire after 2029 if unused.

Federal income tax laws provided additional bad debt deductions through 1987, totaling $2,252. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total $642 at year-end 2021. If the Company were liquidated or otherwise ceases to be a company or if tax laws were to change, this liability of $642 would be expensed and paid.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in the state of Illinois. The Company is no longer subject to examinations by taxing authorities for years before 2018.

NOTE 10 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Total unused commitments to extend credit were $2,406 at December 31, 2021, as compared to $1,419 at December 31, 2020. Commitments to make loans are generally made for periods of 60 days or less.

NOTE 11 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Bank met all minimum capital adequacy requirements to which it is subject.

(Dollar amounts in thousands except per share data)

NOTE 11 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (Continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual and required capital amounts and ratios are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total capital to risk-weighted assets	$ 16,470	26.73%	$ 6,471	10.50%	$ 6,163	10.00%
Tier 1 (core) capital to risk-weighted assets	15,698	25.47	5,238	8.50	4,930	8.00
Common Tier 1 (CETI)	15,698	25.47	4,314	7.00	4,006	6.50
Tier 1 (core) capital to adjusted total assets	15,698	16.44	3,820	4.00	4,775	5.00
December 31, 2020						
Total capital to risk-weighted assets	$ 16,126	22.79%	$ 7,431	10.50%	$ 7,077	10.00%
Tier 1 (core) capital to risk-weighted assets	15,241	21.54	6,016	8.50	5,652	8.00
Common Tier 1 (CETI)	15,241	21.54	4,954	7.00	4,600	6.50
Tier 1 (core) capital to adjusted total assets	15,241	16.20	3,763	4.00	4,704	5.00

Federal regulations require the Bank to comply with a Qualified Thrift Lender ("QTL") test, which requires that 65% of assets be maintained in housing-related finance and other specified assets. If the QTL test is not met, limits are placed on growth, branching, new investment, FHLB advances, and dividends or the institution must convert to a commercial bank charter. Management considers the QTL test to have been met.

Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During the years ended December 31, 2021 and 2020, the Bank paid $0 in dividends to the Company.