new valley
Bank & Trust

2021 ANNUAL REPORT

Make the Choice for New Valley

APRIL 2022

We are accountable to our customers, our shareholders, and our community.

We are likely to run into a shareholder or customer when we walk down Main Street or attend an event. Accountability matters, and we are glad for the frequent communication and feedback with our stakeholders.

We're collaborators and partners first; bankers second.

Our focus is on helping small businesses thrive in any way we can. To that end, we're transparent with our entrepreneurial customers, and work with them to get them the financial resources and counsel they need to operate and grow.

We use technology to streamline banking, not get in the way.

Our digital banking tools are forward thinking and best-in-class—but when it's time to talk to a person, we're just a text, call, or personal visit away.

Talk to the decision makers.

All of our lending decisions are made right here in western Massachusetts by people you know, and we're not just willing to explain our decision making—we'd prefer to.

Board of Directors

Chairman Frank Fitzgerald, Esq.
Founder, Fitzgerald Law, PC, The Bank of Western Mass

Frank M. Antonacci
Owner, USA Recycle, Lindy Farms, Greathorse CC

Lamont Clemons
President, S-Cel-O Painting

Maureen Devine
Retired President, Strategic Information Resources

Rocco Falcone
President, Rocky's Hardware

Jim Garvey
Owner and Subject Matter Expert, Money Service Business Industry

Aaron Goodman
Chief Operating Officer, Northstar Pulp & Paper

Tim Lamotte
President, Northern Tree

Peter Martins
Owner Salema Management, Salmar Realty

Sarah Maggi Morin
Chief of Staff, Tree House Brewing Company

Jacob Waah
Owner, Victory Home Health Care

J. Jeffrey Sullivan
President and CEO, New Valley Bank & Trust

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Letter from the Chairman

April 25, 2022

Dear Fellow Shareholder:

We are pleased to be sending you the 2021 annual report for New Valley Bank & Trust. Thanks to your support, the bank has continued its growth track, ending the year with $254 million in assets.

In 2021, your bank's book value per share increased from $867 to $965, deposits grew by close to $100 million, and the loan portfolio grew by $41.2 million, not counting PPP loans. More than $3 million in fee income came in as a result of the PPP loans made to both existing customers and local businesses who are now increasing the amount of business they are doing with New Valley.

To fund its continued growth as planned, your bank raised $6.7 million in new capital from a mix of existing shareholders and forty-five new shareholders. It is worth noting that the expense of the offering totaled only $28,000, which is reflective of the hard work of the bank's officers and staff and the networking ability provided by Board of Directors and shareholders of the bank.

2022 is likely to be challenging year. As we all face the myriad of economic and political challenges, your bank must navigate the interest rate environment and excess liquidity in the marketplace. Yet as we have in the past, we will continue with the business of making good loans and building solid banking relationships with your help and referrals.

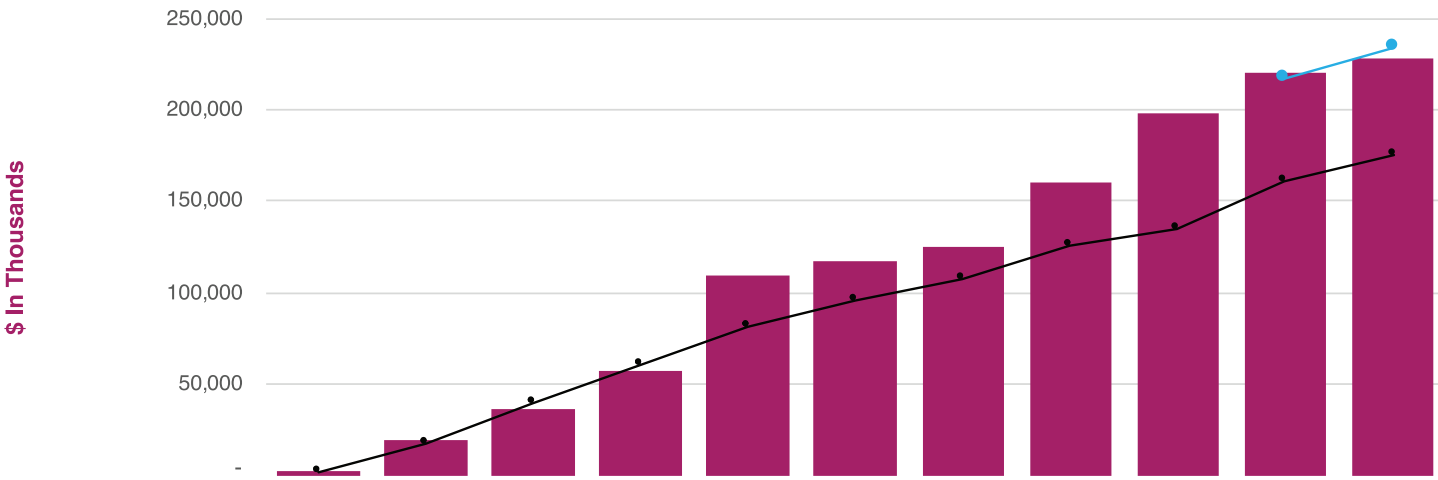
Our bank is fortunate to have Jeff Sullivan and his entire New Valley team on board, proving that attentiveness to customers both large and small can help achieve the results you see in this annual report. Through these pandemic times, they have proven that banking customers are looking for and will embrace culture driven by their banking needs.

Our message to the community for 2022 is "Make the Choice for New Valley." Many of the larger banks are forcing changes upon customers that are not in the customer's best interest. We encourage all of you to tell your colleagues to make a positive choice and switch to New Valley; the levels of service and accountability are second to none, and our products and technology compare favorably to any other provider in the market.

We welcome you to attend our shareholders' annual meeting on *Wednesday, May 18 at 4:00 at the Basketball Hall of Fame, 1000 Hall of Fame Ave., Springfield.* The business portion of the meeting will be held in the theater across from the main entrance/ticket booth to the Hall. Afterward, we welcome you to join us for refreshments next door to the theater at The Place 2 Be (formerly Samuel's Tavern). If circumstances turn for the worse and a virtual meeting is warranted, we'll keep you informed.

Frank P. Fitzgerald

Average Deposits Over Time



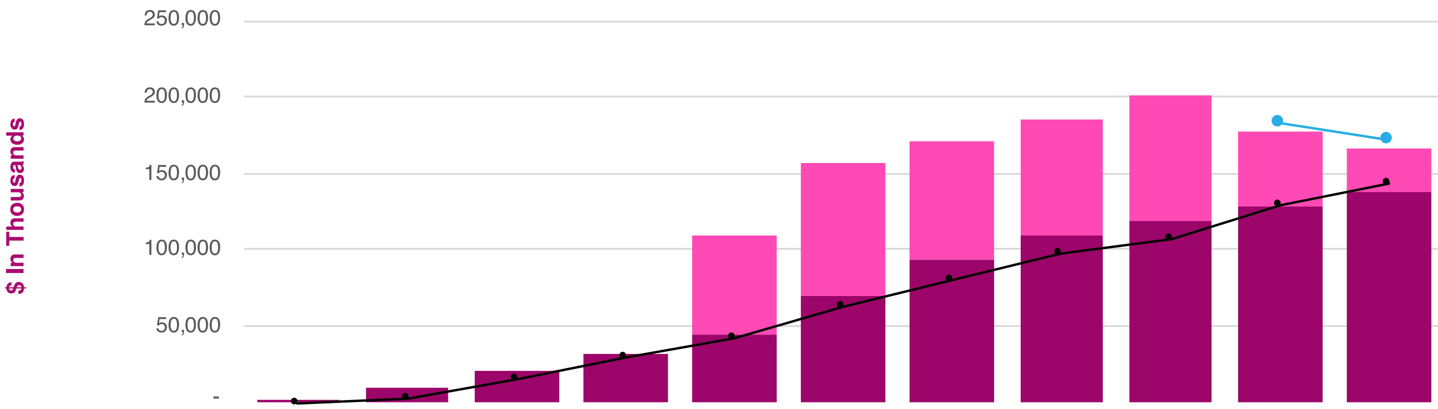
	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Deposits	1,948	19,215	36,537	57,555	109,411	117,483	125,256	161,047	198,738	220,287	227,834
Plan Deposits	1,771	17,708	38,958	60,208	81,167	95,333	106,889	125,667	135,429	161,500	176,083
2021 Plan Deposits										**217,931**	**233,861**

- Deposits continue to exceed the original business plan, growing $95.4 million in 2021 to $225.4 million.

- Of this $95.4 million, 37% or $35 million of the growth came from organic checking account acquisition.

- The bank reforecast its business plan as part of the second round capital raise in 2021, increasing deposit targets to reflect success to date in attracting deposits.

Average Loans Over Time



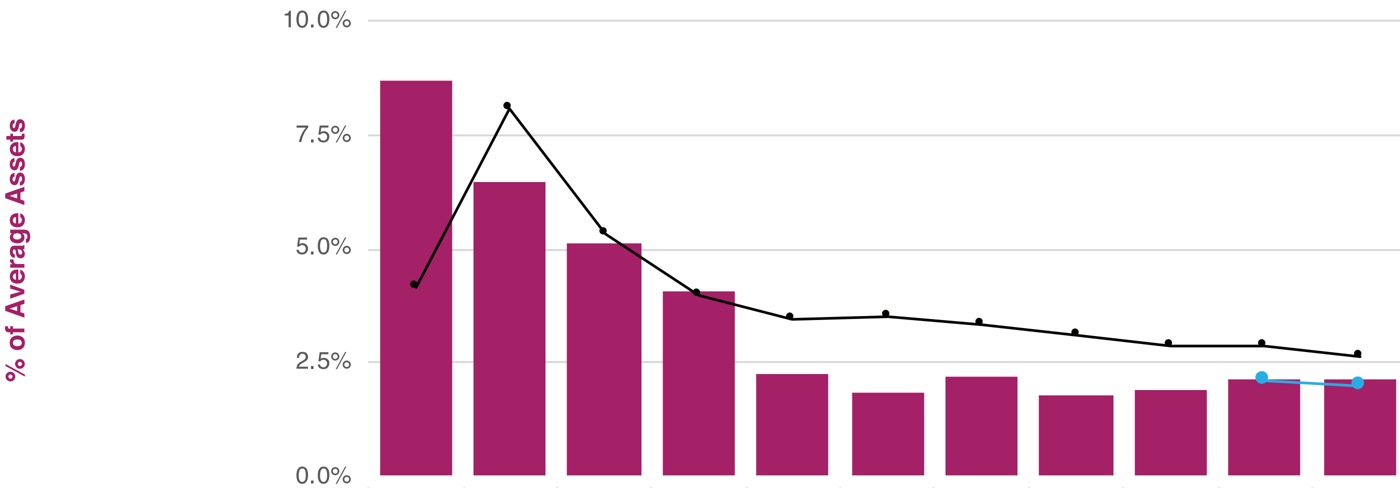
	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
PPP Loans	-	-	-	-	64,495	88,056	77,364	75,854	81,973	48,798	28,998
Core Loans	1,214	10,017	21,486	32,448	44,889	69,211	93,433	109,167	119,197	128,319	137,054
Plan Loans	0	3,049	15,848	29,064	42,529	62,253	80,510	97,932	106,231	129,083	142,610
2021 Plan Loans										**182,414**	**171,585**

- Net organic loan growth excluding PPP was strong at $41.2 million in 2021, ending at $147.1 million in gross loans outstanding.

- The Paycheck Protection Program (PPP) ended May 31, 2021. The bank originated $91.4 million in PPP loans in 2021, offset by $51.5 million in successful forgiveness applications. Loan forgiveness drove favorable PPP fee income recognition.

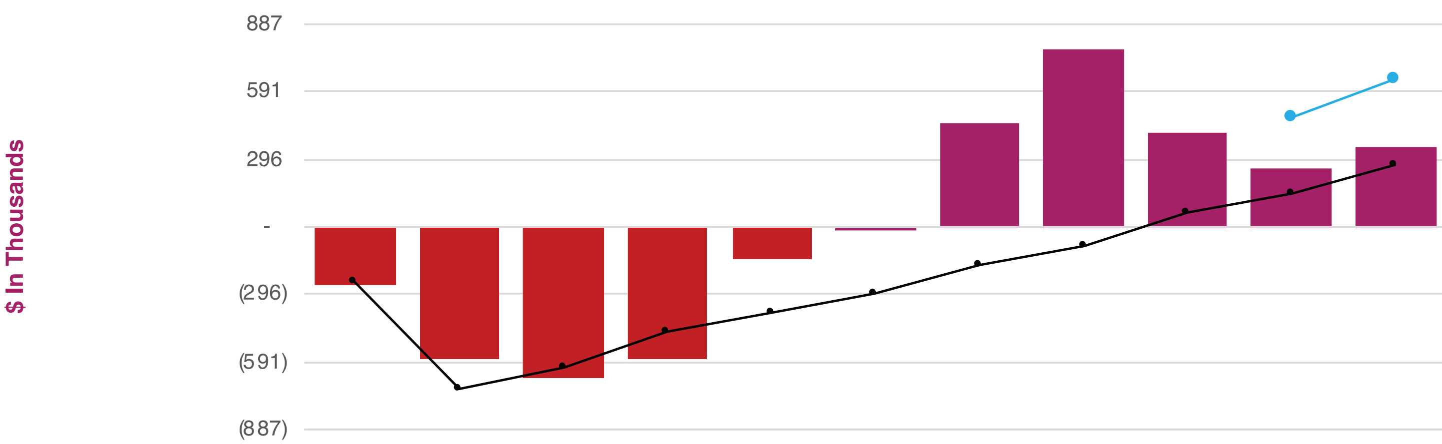
- $19.3 million in PPP loans remain at December 31, 2021, all of which are expected to be approved for forgiveness in 2022.

Non-Interest Expense Management



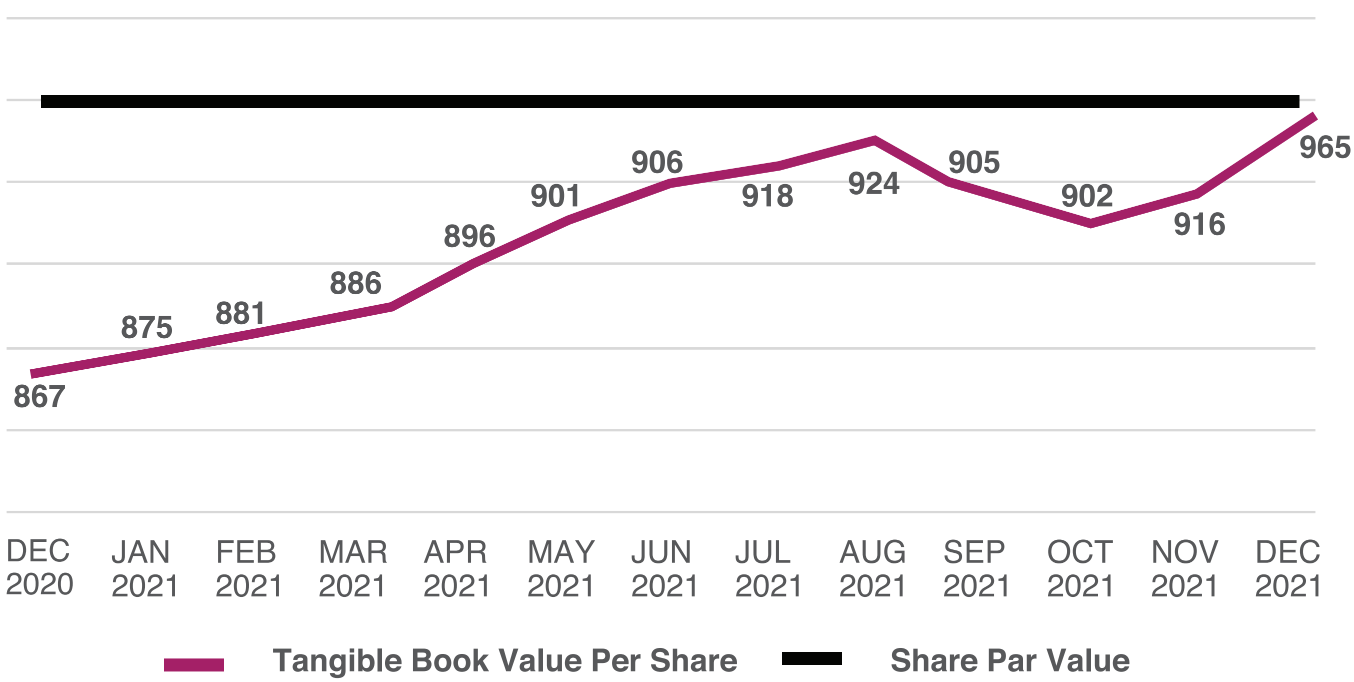
	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
NIE/Avg Assets	8.7%	6.5%	5.1%	4.1%	2.2%	1.8%	2.2%	1.8%	1.9%	2.1%	2.1%
Plan NIE/Avg Assets	4.2%	8.1%	5.3%	4.0%	3.5%	3.5%	3.3%	3.1%	2.9%	2.9%	2.6%
2021 Plan NIE/Avg Assets										**2.1%**	**2.0%**

Achieving Profitability



	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4
Net Income/(Loss)	(252)	(578)	(662)	(577)	(144)	(2)	450	778	407	259	354
Plan Net Income/(Loss)	(235)	(703)	(611)	(459)	(370)	(294)	(167)	(81)	68	143	269
2021 Plan Net Income										**481**	**650**

Capital Raise



Second-Round Capital Raise Nets $6.7 million in New Capital

In January 2022, the bank closed out its second-round capital raise, issuing 6,283 shares of stock at a price of $1,150.00 per share. Associated costs with the second- round raise were $28,000; once again the bank did not pay any commissions to investment bankers or agents to sell the shares. The proceeds are being used to fund continued growth at the bank. As of year-end most, but not all, of the stock had been sold. 5,843 shares out of the total 6,283 shares were placed prior to December 31, with the final 440 shares coming in during January. Because the second-round shares were sold at a higher price than the original offering, the new stock is slightly accretive to the book value for the existing shareholders. In other words, the book value of the bank, which was $905 per share at the end of September 2021, grew to $965 per share at December 31, 2021 via earnings and accretion coming from the stock offering. We welcomed 45 new shareholders via the second-round offering, bringing the total number of New Valley shareholders to just under 350. It has been a part of our plans to find ways for our shareholders to be able to spend time together and to do business with each other, not just with the bank. We support local business, and we love to find ways to connect local business owners with each other. We hope to create recurring opportunities for networking as we emerge from the pandemic, and we invite your referrals as always to help us build a stronger financial institution.

Financial Statistics

	20Q4	21Q1	21Q2	21Q3	21Q4
Total Loans*	$170,798	$185,021	$201,169	$177,117	$166,052
Core Loans*	$93,433	$109,167	$119,197	$128,319	$137,054
Paycheck Protection Program Loans*	$77,364	$75,854	$81,973	$48,798	$28,998
Deposits*	$125,256	$161,047	$198,738	$220,287	$227,834
Total Assets*	$214,006	$234,974	$266,589	$252,690	$251,790
Net Interest Income	$1,888	$1,916	$1,942	$2,126	$1,854
Non-Interest Expense	$1,163	$1,043	$1,275	$1,337	$1,350
Non-Interest Expense Avg Assets	2.2%	1.8%	1.9%	2.1%	2.1%
Net Income	$450	$778	$407	$259	$354

**Average*

Management Team

Jeff Sullivan
President & CEO

Mike Paré
SVP, CFO & Treasurer

Ryan Hess
SVP, Chief Lending Officer

Jill Brody
VP, Director of Risk Management

Jeannette Ramos
VP, Bank Operations

Elizabeth Beaudry
VP, Senior Credit Officer

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New Valley Bank & Trust and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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P: 617.439.9700

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WOLF & COMPANY, P.C.

Independent Auditor's Report

To the Audit Committee of New Valley Bank & Trust and Subsidiary:

Opinion

We have audited the consolidated financial statements of New Valley Bank & Trust and its Subsidiary (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of net income (loss), comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

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

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

Wolf & Company, P.C.

Boston, Massachusetts
March 16, 2022

New Valley Bank & Trust and Subsidiary

Consolidated Balance Sheets

December 31, 2021 and 2020

	2021	2020
	(In thousands, except shares)	
Assets		
Cash and due from banks	$ 12,764	$ 10,577
Federal funds sold	18,130	-
Restricted cash	1,761	554
Total cash and cash equivalents	32,655	11,131
Interest-bearing deposits in banks	6,229	7,449
Securities available for sale	39,279	21,348
Securities held to maturity	5,500	500
Loans, net of allowance for loan losses of $2,390 and $1,325 at December 31, 2021 and 2020, respectively	164,040	165,628
Bank-owned life insurance	4,036	-
Premises and equipment, net	1,200	1,372
Accrued interest receivable	695	768
Other assets	601	561
	$ 254,235	$ 208,757
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 24,649	$ 13,902
Interest-bearing	200,776	116,138
Total deposits	225,425	130,040
Long-term debt	-	57,859
Accrued expenses and other liabilities	419	419
Total liabilities	225,844	188,318
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $100 par value; 50,000 shares authorized; 29,428 and 23,585 shares at December 31, 2021 and 2020, respectively	2,943	2,359
Class A common stock, $0.25 par value; 1,500 shares authorized; none issued	-	-
Additional paid-in capital	27,380	21,237
Retained deficit	(1,828)	(3,625)
Accumulated other comprehensive income (loss)	(104)	468
Total stockholders' equity	28,391	20,439
	$ 254,235	$ 208,757

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Net Income (Loss)

Years Ended December 31, 2021 and 2020

	2021	2020
	(In thousands, except per share data)	
Interest and dividend income:		
Loans, including fees	$ 8,308	$ 4,556
Debt securities	406	293
Interest-bearing deposits and other	104	164
Federal funds sold	15	53
Total interest income	8,833	5,066
Interest expense:		
Deposits	895	853
Long-term debt	95	136
Total interest expense	990	989
Net interest income	7,843	4,077
Provision for loan losses	1,065	964
Net interest income, after provision for loan losses	6,778	3,113
Non-interest income		
Loan servicing fees, net	48	-
Net gain on sales of available for sale securities	133	252
Other	269	112
Total non-interest income	450	364
Operating expenses:		
Salaries and employee benefits	2,874	2,231
Occupancy and equipment	502	410
Data processing	558	393
Marketing	74	48
Professional	312	209
Other general and administrative	685	439
Total operating expenses	5,005	3,730
Income/(loss) before income taxes	2,223	(253)
Provision for income taxes	426	20
Net income/(loss)	$ 1,797	$ (273)
Earnings (loss) per common share		
Basic and diluted earnings/(loss) per share	$ 75.63	$ (11.58)
Weighted average basic and diluted shares outstanding	23,761	23,585

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
	(In thousands)	
Net income/(loss)	$ 1,797	$ (273)
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale	(439)	761
Reclassification adjustment for gains on securities available for sales realized in income	(133)	(252)
	(572)	509
Comprehensive income	$ 1,225	$ 236

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2021 and 2020

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands)			
Balance at December 31, 2019	23,585	$ 2,359	$ 21,186	$ (3,352)	$ (41)	$ 20,152
Comprehensive income	-	-	-	(273)	509	236
Share based compensation - stock options	-	-	51	-	-	51
Balance at December 31, 2020	23,585	2,359	21,237	(3,625)	468	20,439
Issuance of common stock in connection with stock offering	5,843	584	6,107	-	-	6,691
Comprehensive income	-	-	-	1,797	(572)	1,225
Share based compensation - stock options	-	-	36	-	-	36
Balance at December 31, 2021	29,428	$ 2,943	$ 27,380	$ (1,828)	$ (104)	$ 28,391

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 1,797	$ (273)
Adjustments to reconcile net loss to net cash used by operating activities:		
Provision for loan losses	1,065	964
Amortization (accretion) of deferred loan (fees)/costs	137	(97)
Accretion of deferred PPP loan fees	(3,175)	(1,517)
Net amortization of premiums on securities	275	194
Depreciation and amortization of premises and equipment	193	172
Net gain on sales of securities available for sale	(133)	(252)
Increase in cash surrender value of bank-owned life insurance	(36)	-
Share based compensation expense	36	51
Net change in:		
Accrued interest receivable	73	(647)
Other assets and liabilities, net	(40)	(457)
Net cash provided (used) by operating activities	192	(1,862)
Cash flows from investing activities:		
Net change in interest-bearing deposits in banks	1,220	587
Activity in securities available for sale:		
Sales	9,478	3,470
Purchases	(32,936)	(16,569)
Maturities and prepayments	4,813	5,382
Activity in securities held to maturity:		
Purchases	(5,000)	(500)
Loan purchases	(10,533)	(16,806)
Loan principal collections (originations), net	14,094	(119,572)
Additions to premises and equipment, net	(21)	(496)
Purchase of bank-owned life insurance	(4,000)	-
Net cash used by investing activities	(22,885)	(144,504)
Cash flows from financing activities:		
Net increase in deposits	95,385	87,081
Proceeds from issuance of long-term debt	18,116	73,413
Repayment of long-term debt	(75,975)	(15,554)
Net proceeds from issuance of common stock	6,691	-
Net cash provided by financing activities	44,217	144,940
Net change in cash and cash equivalents	21,524	(1,426)
Cash and cash equivalents at beginning of period	11,131	12,557
Cash and cash equivalents at end of period	$ 32,655	$ 11,131
Supplementary information:		
Interest paid on deposits and long-term debt	$ 1,094	$ 878
Income taxes paid, net of refunds	426	20

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and basis of presentation

New Valley Bank & Trust (the "Bank"), a state-chartered trust company organized under the laws of the Commonwealth of Massachusetts, commenced operations on May 30, 2019. At such date, all activity by the Bank's predecessor while in the organization phase, New Valley Founders, LLC (the "LLC" formerly Green Apple Founders, LLC) was transferred into the Bank. Organizational and pre-operational expenditures were funded by the sale of 3,059 units in the LLC at a price of $1,000 per unit. Upon commencement of the Bank's operations, the 3,059 units in the LLC were exchanged for 3,059 shares of the Bank's common stock. The LLC was dissolved on December 30, 2019. Through a private placement offering, including the 3,059 units exchanged for the shares of New Valley Bank & Trust, the Bank issued 23,585 shares of common stock at a price of $1,000 per share. Net proceeds amounted to $23,519,000, including the gross proceeds of $23,585,000 and direct subscription offering expenses of $66,000.

The Bank completed a second private placement offering on December 20, 2021. The Bank approved the issuance of up to 6,500 shares of common stock at a price of $1,150 per share. As of December 31, 2021, the Bank has issued 5,843 of those shares, with the remaining 657 shares anticipated to settle in early 2022. Net proceeds through December 31, 2021 amounted to $6,691,000, including the gross proceeds of $6,719,000 and direct subscription offering expenses of $28,000.

On October 4, 2021, the Bank established New Valley Securities Corporation (the "Subsidiary"), a wholly owned subsidiary of New Valley Bank & Trust. The Subsidiary purchases, holds, and sells securities. There were no assets transferred into the Subsidiary as of and during the year ended December 31, 2021.

Business

The Bank provides a variety of financial services to small and medium-sized businesses, professionals, municipalities and not-for-profit organizations through its offices in Springfield, Massachusetts. Its primary deposit products are checking, money market, savings and term certificate accounts, and its primary lending products are commercial real estate and commercial loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for loan losses.

Significant group concentrations of credit risk

Most of the Bank's lending activities are with customers located within Massachusetts and Connecticut. The Bank does not have any significant concentrations to any one industry or customer.

Cash and cash equivalents

Cash and cash equivalents include cash, balances due from banks and federal funds sold on an overnight basis. The Bank maintains cash balances in excess of federally insured limits. Restricted cash of $1,761,000 at December 31, 2021 is pledged for customer letters-of-credit at a correspondent bank.

Interest-bearing deposits in banks

Interest-bearing deposits in banks mature within three years and are carried at cost. At December 31, 2021 and 2020, interest-bearing deposits in banks with a carrying value of $1,004,000 and $1,007,000, respectively, were pledged to secure public deposits.

Fair value hierarchy

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on 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 for substantially the full term of the assets or liabilities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value hierarchy (concluded)

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Reclassification

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities except for purchase premiums on callable securities, which are amortized to the earliest call date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Bank evaluates all debt securities classified as available for sale or held to maturity with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary ("OTTI").

OTTI is required to be recognized if (1) the Bank intends to sell the 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 present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Bank intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Home Loan Bank stock

The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB, which is included in Other Assets on the Consolidated Balance Sheets. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2021 and 2020, no impairment has been recognized.

Loans

The Bank's loan portfolio includes 1-4 family residential real estate, owner occupied commercial real estate, non-owner occupied commercial real estate, commercial and consumer segments.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination costs, net of certain direct origination fees, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit 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 non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these 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.

Allowance for loan losses

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

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated, and unallocated components, as further described below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

General component

The general component of an allowance for loan losses is typically based on historical loss experience adjusted for qualitative factors stratified by the various loan segments. As a de novo institution, the Bank has no historical loss experience and has considered the allowance coverage ratios of national and local peer groups when assessing allowance adequacy. Prospectively, the Bank will consider relevant peer group statistics, as well as its own historical loss experience, adjusted for the following qualitative factors: levels/trends in delinquent and non-performing loans; trends in volume, term and concentrations of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth lending management and staff, national and local economic trends and conditions, of changes in the quality of the Bank's loan review system; changes in value of the underlying collateral for collateral dependent loans; other external factors – competition, legal, regulatory.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

1-4 family residential real estate - The Bank generally does not originate or purchase loans with a loan-to-value ratio greater than 80 percent and does not generally grant or purchase loans that would be classified as subprime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will influence the credit quality in this segment.

Commercial real estate (owner and non-owner occupied) – Loans in this segment are primarily income-producing properties in Massachusetts and Connecticut. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, could have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

Commercial loans – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, could have an effect on the credit quality in this segment. In addition, this segment includes loans issued under the United States Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). These loans are guaranteed and are not allocated a general reserve because the Bank has not experienced losses on such loans and management expects the guarantees will be effective, if necessary.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

General component (concluded)

Consumer loans – Loans in this segment are generally secured by personal property or unsecured, and repayment is dependent on the credit quality of the individual borrower.

Allocated component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings, owner occupied commercial real estate, non-owner occupied commercial real estate and commercial loans exceeding certain dollar amounts are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and 1-4 family residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

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.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (concluded)

Unallocated component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Premises and equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Bank-owned life insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received in excess of cash surrender value, are reflected in other non-interest income on the consolidated statement of net income (loss) and are not subject to income taxes.

Transfers of financial assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

During the normal course of business, the Bank may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred.

Share based compensation plans

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date calculated value of the equity instruments issued. Share based compensation is recognized over the period the employee is required to provide services for the award. The Bank accounts for forfeitures as they occur. The Bank reverses compensation cost previously recognized when an award is forfeited before the completion of the applicable vesting period. The Bank uses the Black-Scholes option-pricing model to determine the calculated value of stock options granted.

Income taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes. A valuation allowance is established against deferred tax assets when, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Earnings per common share

Basic earnings/loss per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested options/awards are non-forfeitable, these unvested awards/options are considered outstanding in the computation of basic earnings per share. Diluted earnings/loss per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock options and stock warrants and are determined using the treasury stock method.

Earnings or loss per common share has been computed based on the following:

	2021	2020
Net income/(loss) applicable to common stock (in thousands)	$ 1,797	$ (273)
Average number of common shares outstanding used to calculate basic and diluted earnings/(loss) per share	23,761	23,585
Basic and diluted earnings/(loss) per share	$ 75.63	$ (11.58)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Earnings per common share (concluded)

Options for 1,550 and 1,175 shares and warrants for 3,109 shares were not included in the computation of diluted loss per share for the years ended December 31, 2021 and 2020, respectively, because to do so would have been anti-dilutive.

Comprehensive income (loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the stockholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). At December 31, 2021 and 2020, respectively, accumulated other comprehensive (loss) income (loss) was ($104,000) and $468,000 related to unrealized gains (losses) on securities available for sale.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The amendments in this Update require that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods with fiscal years beginning after December 15, 2022. Early application is permitted. It is expected that assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date; however, based on the current level of long-term leases in place, this Update is not expected to have a material impact on the Bank's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326).* Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Bank is currently evaluating the impact this Update will have on its consolidated financial statements. Management has begun to obtain the information needed on a historical basis to make a decision on forecasting assumptions to be used, including peer data as the Bank does not have historical data.

2. SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2021:				
Securities available for sale:				
U.S. government and federal agency	$ 11,299	$ -	$ (77)	$ 11,222
U.S. government-sponsored residential mortgage-backed securities	4,888	34	(53)	4,869
U.S. government guaranteed residential mortgage-backed securities	3,558	22	(35)	3,545
U.S. government-sponsored commercial mortgage-backed securities	3,928	13	(38)	3,903
State and municipal	12,957	108	(65)	13,000
Corporate	2,753	-	(13)	2,740
Total securities available for sale	$ 39,383	$ 177	$ (281)	$ 39,279
Securities held to maturity:				
Corporate	$ 5,500	$ -	$ (24)	$ 5,476
Total securities held to maturity	$ 5,500	$ -	$ (24)	$ 5,476
December 31, 2020:				
Securities available for sale:				
U.S. government and federal agency	$ 1,042	$ -	$ (6)	$ 1,036
U.S. government-sponsored residential mortgage-backed securities	2,962	93	-	3,055
U.S. government guaranteed residential mortgage-backed securities	1,481	50	(1)	1,530
U.S. government-sponsored commercial mortgage-backed securities	8,321	57	(22)	8,356
State and municipal	4,946	299	-	5,245
Corporate	2,128	-	(2)	2,126
Total securities available for sale	$ 20,880	$ 499	$ (31)	$ 21,348
Securities held to maturity:				
Corporate	$ 500	$ -	$ -	$ 500
Total securities held to maturity	$ 500	$ -	$ -	$ 500

SECURITIES (continued)

At December 31, 2021 and 2020, securities with a fair value of $23,256,000 and $18,192,000, respectively, were pledged to secure borrowings from the Federal Home Loan Bank of Boston.

The amortized cost and fair value of securities by contractual maturity at December 31, 2021 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Within one year	$ 323	$ 322	$ -	$ -
After 1 year through 5 years	4,406	4,381	-	-
After 5 years through 10 years	10,228	10,134	4,500	4,476
Over 10 years	12,052	12,125	1,000	1,000
	27,009	26,962	5,500	5,476
Mortgage-backed securities	12,374	12,317	-	-
	$ 39,383	$ 39,279	$ 5,500	$ 5,476

For the years ended December 31, 2021 and 2020, proceeds from sales of securities available for sale amounted to $9,478,000 and $3,470,000, respectively. Gross realized gains amounted to $238,000 and $252,000, respectively. Gross realized losses amounted to $105,000 during the year ended December 31, 2021. There were no gross realized losses from the sales of securities available for sale during the year ended December 31, 2020.

SECURITIES (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(In thousands)			
December 31, 2021:						
Securities available for sale:						
U.S. government and federal agency	$ 71	$ 10,342	$ 6	$ 880	$ 77	$ 11,222
U.S. government-sponsored residential mortgage-backed securities	53	3,042	-	-	53	3,042
U.S. government guaranteed residential mortgage-backed securities	35	2,139	-	-	35	2,139
U.S. government-sponsored commercial mortgage-backed securities	37	2,972	1	165	38	3,137
State and municipal	65	4,836	-	-	65	4,836
Corporate	12	2,573	1	167	13	2,740
Total securities available for sale	$ 273	$ 25,904	$ 8	$ 1,212	$ 281	$ 27,116
Securities held to maturity:						
Corporate	$ 24	$ 3,476	$ -	$ -	$ 24	$ 3,476
Total securities held to maturity	$ 24	$ 3,476	$ -	$ -	$ 24	$ 3,476
December 31, 2020:						
Securities available for sale:						
U.S. government and federal agency	$ 6	$ 1,036	$ -	$ -	$ 6	$ 1,036
U.S. government guaranteed residential mortgage-backed securities	1	440	-	-	1	440
U.S. government-sponsored commercial mortgage-backed securities	22	2,645	-	-	22	2,645
Corporate	2	1,458	-	-	2	1,458
Total securities available for sale	$ 31	$ 5,579	$ -	$ -	$ 31	$ 5,579

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

At December 31, 2021, 46 securities have unrealized losses with aggregate depreciation of less than 1% from the Bank’s amortized cost basis.

SECURITIES (concluded)

The unrealized losses on the Bank's investment in U.S. Government and federal agency bonds, government-sponsored residential and commercial mortgage backed securities, U.S. government guaranteed residential mortgage-backed securities and state and municipal bonds were primarily caused by changes in interest rates. Many of these investments are guaranteed by the U.S. Government or an agency thereof. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

The Bank's unrealized losses on investments in corporate bonds relate to investments in companies within the financial services sector. The unrealized losses are primarily caused by (a) recent decreases in profitability and near-term profit forecasts by industry analysts resulting from the sub-prime mortgage market and (b) recent downgrades by several industry analysts. The contractual terms of these investments do not permit the companies to settle the security at a price less than the par value of the investment. All corporate bonds are investment grade, and the Bank currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the bonds would not be settled at a price less than the par value of the investment. Because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

3. LOANS

A summary of the balances of loans follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
1-4 family residential real estate	$ 16,200	$ 14,303
Commercial real estate	99,269	68,595
Commercial	31,168	22,658
PPP	19,780	62,268
Consumer	2	8
Total loans	166,419	167,832
Allowance for loan losses	(2,390)	(1,325)
Deferred PPP loan fees	(593)	(1,290)
Deferred loan costs, net	604	411
Loans, net	$ 164,040	$ 165,628

The Bank has transferred a portion its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as a sale and are therefore not included on the Bank's accompanying consolidated balance sheets. The Bank and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrower, remits payments (net of servicing fees) to the participating lenders and disburses required escrow funds to relevant parties. At December 31, 2021 and 2020, the Bank was servicing loans for participants aggregating $27,532,000 and $22,975,000, respectively.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the novel coronavirus ("COVID-19") pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP. As a qualified SBA lender, the Bank was automatically authorized to originate PPP loans.

LOANS (continued)

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly "payroll costs;" or (2) $10.0 million. PPP loans have: (a) an interest rate of 1.0%, (b) a two or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Bank or 10 months from the end of the covered period, as defined. The SBA guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses. The Bank has not allocated an allowance for loan loss for PPP loans due to the SBA guarantee.

Pursuant to Section 4013 of the CARES Act, financial institutions can suspend the requirements under U.S. GAAP related to troubled debt restructuring ("TDR") for modifications made before December 31, 2020 to loans that were current as of December 31, 2019. On January 3, 2021, the President signed into law the Consolidated Appropriations Act, 2021 (the "Act"). As a result of the Act, the suspension of TDR accounting was extended to January 1, 2022. The requirement that a loan be to more than 30 days past due as of December 31, 2019 is still applicable.

During the years ended December 31, 2021 and December 31, 2020, the Bank purchased 1-4 family residential real estate loans aggregating $4,519,000 and $13,554,000, respectively, and commercial real estate loans aggregating $6,014,000 and $3,252,000, respectively. As of December 31, 2021 and 2020, the outstanding balances of purchased 1-4 family residential real estate and commercial real estate loans were $26,947,000 and $19,414,000, respectively.

LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2021 and 2020 and allocation of the allowance to loan segments, excluding PPP loans, as of December 31, 2021 and 2020 follows:

	1-4 Family Residential Real Estate	Owner Occupied Commercial Real Estate	Non-owner Occupied Commercial Real Estate	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Year Ended December 31, 2021							
Balance at December 31, 2020	$ 100	$ 162	$ 544	$ 397	$ -	$ 122	$ 1,325
Provision for loan losses	13	68	237	737	-	10	1,065
Balance at December 31, 2021	$ 113	$ 230	$ 781	$ 1,134	$ -	$ 132	$ 2,390
Year Ended December 31, 2020							
Balance at December 31, 2019	$ 6	$ 34	$ 104	$ 190	$ -	$ 27	$ 361
Provision for loan losses	94	128	440	207	-	95	964
Balance at December 31, 2020	$ 100	$ 162	$ 544	$ 397	$ -	$ 122	$ 1,325
December 31, 2021							
Allowance for impaired loans	$ -	$ -	$ -	$ 558	$ -	$ -	$ 558
Allowance for non-impaired loans	113	230	781	576	-	132	1,832
Total allowance for loan losses	$ 113	$ 230	$ 781	$ 1,134	$ -	$ 132	$ 2,390
Loans deemed impaired	$ -	$ -	$ -	$ 711	$ -		$ 711
Loans not deemed impaired	16,200	25,121	74,148	30,457	2		145,928
Total loans	$ 16,200	$ 25,121	$ 74,148	$ 31,168	$ 2		$ 146,639
December 31, 2020							
Allowance for non-impaired loans	$ 100	$ 162	$ 544	$ 397	$ -	$ 122	$ 1,325
Total loans	$ 14,303	$ 17,654	$ 50,941	$ 22,658	$ 8		$ 105,564

LOANS (continued)

The following is a summary of past due and non-accrual loans at December 31, 2021 and December 31, 2020:

	December 31, 2021				
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days Or More	Total Past Due	Loans on Non-Accrual
	(In thousands)				
Commercial real estate	$ 811	$ 1,000	$ -	$ 1,811	$ 212
Commercial	-	8	711	719	711
Total	$ 811	$ 1,008	$ 711	$ 2,530	$ 923

	December 31, 2020				
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days Or More	Total Past Due	Loans on Non-Accrual
	(In thousands)				
Commercial	$ -	$ 487	$ -	$ 487	$ -

As of December 31, 2021, the Bank had PPP loans of $515,000 past due that are not included in the delinquency table above as the Bank expects to receive the guarantee from the SBA in full.

The following is information pertaining to impaired loans:

	December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Impaired loans with a valuation allowance:			
Commercial	$ 711	$ 737	$ 558

	December 31, 2021		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recorded on Cash Basis
	(In thousands)		
Commercial	$ 369	$ 25	$ 25

LOANS (continued)

There were no TDRs at December 31, 2021. There were no impaired loans, non-accrual loans or TDRs at December 31, 2020. No additional funds are committed to be advanced in connection with impaired loans.

Credit Quality Information

The Bank utilizes a nine-grade internal loan rating system for commercial real estate and commercial loans as follows:

Loans rated 1 – 5: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 6: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 7: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 8: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 9: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

Management utilizes delinquency reports and communications with borrowers to monitor credit quality in the Bank's 1-4 family residential real estate and consumer loan portfolios.

LOANS (concluded)

On an annual basis, or more often if needed, the Bank formally reviews the ratings on all commercial real estate and commercial loans. Annually, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the Bank's loans by risk rating at December 31, 2021 and 2020:

	December 31,			
	2021		2020	
	Commercial Real Estate	Commercial	Commercial Real Estate	Commercial
	(In thousands)			
Loans rated 1-5	$ 99,057	$ 30,357	$ 68,595	$ 22,321
Loans rated 6	-	-	-	100
Loans rated 7	212	100	-	237
Loans rated 8	-	711	-	-
	$ 99,269	$ 31,168	$ 68,595	$ 22,658

4. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31,	
	2021	2020
	(In thousands)	
Furniture, fixtures and equipment	$ 607	$ 581
Leasehold improvements	982	968
Assets in process	-	19
	1,589	1,568
Less accumulated depreciation and amortization	(389)	(196)
	$ 1,200	$ 1,372

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 amounted to $193,000 and $172,000, respectively.

5. DEPOSITS

A summary of deposit balances, by type, is as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
NOW and demand	$ 79,682	$ 44,713
Money market deposits	103,149	63,267
Regular savings and other	8,183	5,320
Total non-certificate accounts	191,014	113,300
Term certificates less than $250,000	15,728	7,283
Term certificates of $250,000 or more	18,683	9,457
Total certificate accounts	34,411	16,740
Total deposits	$ 225,425	$ 130,040

A summary of certificate accounts by maturity at December 31, 2021 (in thousands) is as follows:

2022	$ 5,751
2023	2,675
2024	1,406
2025	12,342
2026	10,144
2027	2,093
	$ 34,411

6. LINE OF CREDIT

The Bank has a $2,500,000 unsecured available line of credit with a correspondent bank at an interest rate that adjusts daily. At December 31, 2021 and 2020, there were no amounts outstanding.

7. LONG-TERM DEBT

Federal Reserve Bank PPPLF Advances

During the years ended December 31, 2021 and 2020, in order to fund a portion of the Bank's PPP loan originations, the Bank borrowed $18,116,000 and $57,859,000, respectively, from the Federal Reserve Bank's PPP Loan Facility (PPPLF). Borrowings carry a rate of 0.35% fixed for the term of the corresponding PPP loan but can be prepaid at any time. The Bank pledged eligible PPP loans as collateral for the borrowings. As loans are forgiven or paid down, funds are remitted to the Federal Reserve Bank to pay back the advances. At December 31, 2021, all advances were paid off.

8. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
Current tax provision:		
Federal	$ 176	$ -
State	250	20
	426	20
Deferred tax provision (benefit):		
Federal	166	(41)
State	(50)	(27)
	116	(68)
Change in valuation allowance	(116)	68
	$ 426	$ 20

The reason for the differences between the statutory federal tax provision and the actual income tax provision are summarized as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
Statutory federal income tax provision, at 21%	$ 467	$ (53)
Increase (decrease) resulting from:		
State taxes	158	20
Tax exempt income	(22)	(9)
Change in valuation allowance	(116)	68
Bank-owned life insurance	(8)	-
Other, net	(53)	(6)
Total provision for income taxes	$ 426	$ 20

INCOME TAXES (concluded)

The effects of each item that give rise to deferred taxes are as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
Organization and start-up costs	$ 467	$ 500
Net operating loss carryforward	-	235
Allowance for loan losses	672	372
Deferred fees	(132)	(86)
Depreciation and amortization	(169)	(62)
Unrealized gain on securities available for sale	(29)	(131)
Charitable contributions	-	1
Interest on nonaccrual loans	7	-
Other, net	(1)	-
	815	829
Valuation allowance	(815)	(829)
Net deferred tax asset	$ -	$ -

There is insufficient evidence to conclude that the Bank will have future taxable income in an amount sufficient to realize its deferred tax assets. As a result, a full valuation allowance has been recorded.

At December 31, 2021 and 2020, the Bank had no material uncertain tax positions. The Bank accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes. No interest or penalties were recorded for the years ended December 31, 2021 and 2020. All tax years are open for review and examination.

9. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Federal banking regulations require the Bank to maintain minimum amounts and ratios of common equity Tier 1, Tier 1 and total capital to risk-weighted assets and Tier 1 capital to average assets, as set forth in the table below. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

As of December 31, 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The Bank's actual capital amounts and ratios are presented in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 2021, that the Bank meets all capital adequacy requirements to which it is subject.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

For regulatory capital purposes, loans made under the PPP are risk-weighted at 0% in risk-based capital calculations. For the Tier 1 leverage ratio computation, PPP loans pledged to the PPPLF are excluded from total average assets. Any PPP loan that is not pledged to the PPPLF is included in total average assets for purposes of the Tier 1 leverage ratio calculation.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
			(Dollars in Thousands)				
December 31, 2021:							
Total capital (to risk-weighted assets)	$30,624	18.0%	$13,603	8.0%	$17,003	10.0%	
Common equity Tier 1 capital (to risk-weighted assets)	28,496	16.8	7,652	4.5	11,052	6.5	
Tier 1 capital (to risk-weighted assets)	28,496	16.8	10,202	6.0	13,603	8.0	
Tier 1 leverage ratio (to average assets)	28,496	11.3	10,072	4.0	20,143	8.0	*
December 31, 2020:							
Total capital (to risk-weighted assets)	$21,296	19.0%	$ 8,979	8.0%	$11,224	10.0%	
Common equity Tier 1 capital (to risk-weighted assets)	19,971	17.8	5,051	4.5	7,295	6.5	
Tier 1 capital (to risk-weighted assets)	19,971	17.8	6,734	6.0	8,979	8.0	
Tier 1 leverage ratio (to average assets)	19,971	13.7	5,852	4.0	11,704	8.0	*

* Although the minimum well capitalized Tier 1 leverage ratio is generally 4%, pursuant to the Bank's de novo status, the Bank is subject to an 8% minimum Tier 1 leverage ratio. This requirement will be in effect for thirty-six months from the Bank's commencement of operations, which was on May 30, 2019.

10. COMMITMENTS AND CONTINGENCIES

Loan commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and advance funds on lines of credit, construction loans and real estate loans, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2021	2020
	(In thousands)	
Commitments to grant loans	$12,046	$ 2,210
Unadvanced funds on lines-of-credit	28,960	26,378
Unadvanced funds on construction loans	907	343
Unadvanced funds on real estate loans	1,850	2,519
Commercial letter of credit	1,761	554

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines-of-credit, construction loans, and real estate loans may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis and the commitments are collateralized by real estate or other business assets.

COMMITMENTS AND CONTINGENCIES (concluded)

Operating lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2021, pertaining to banking premises, future minimum rent commitments under various operating leases are as follows:

Years Ending December 31,	Amount (In thousands)
2022	$ 232
2023	232
2024	235
2025	237
2026	206
Thereafter	630
	$ 1,772

The leases contain options to extend for periods of five years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2021 and 2020 were $234,000 and $180,000, respectively.

Executive employment agreement

The Bank has entered into an employment agreement with a certain executive that provides for specified annual compensation and certain other benefits, as defined in the agreement, for an original term of one year. Thereafter, the agreement automatically renews on an annual basis.

Legal contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

11. RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. Dividends are limited to an amount that shall not exceed the Bank's net income for the current year, plus its net income retained for the two previous years. At December 31, 2021 and 2020, the Bank had no retained earnings available for payment of dividends. The Bank will be prohibited from paying dividends to the extent that any such payment would reduce the Bank's capital below required well capitalized levels. Any dividend payment would require prior regulatory approval. No dividends have been declared as of December 31, 2021 or 2020.

12. RELATED PARTIES

In the ordinary course of business, the Bank has granted loans to directors, executive officers and their affiliates amounting to $8,898,000 and $16,522,000 at December 31, 2021 and 2020, respectively.

Deposits from directors, executive officers and their affiliates held by the Bank at December 31, 2021 and 2020 amounted to $18,727,000 and $15,716,000, respectively.

13. EMPLOYEE BENEFIT PLANS

Stock Incentive Plan

The Bank has adopted the 2019 Equity Incentive Plan (the "Plan"), whereby 2,359 shares of the Bank's common stock have been reserved for issuance. Under the Plan, the Bank may grant incentive stock options, non-qualified stock options and restricted stock awards to its employees, officers and directors. The exercise price for each option will be established at the discretion of the Bank's Board of Directors (the "Board") but may not be less than the fair market value of the stock on the grant date. The term of each option will be fixed by the Board and may not exceed ten years from the date of grant. Options and restricted stock awards will generally vest over five years unless otherwise determined by the Board. Vesting may be accelerated upon a change in control, as defined in the Plan. No restricted stock awards were granted in 2021 or 2020.

Stock options

The calculated value of each stock option grant is estimated on the date of grant using the Black- Scholes option-pricing model with the following weighted-average assumptions:

	December 31,	
	2021	2020
	(In thousands)	
Expected term	7 years	7 years
Expected volatility	27.47% - 28.28%	17.8% - 25.76%
Risk-free interest rate	1.02% - 1.49%	0.39% - 1.83%
Expected dividends	- %	- %

The expected term is estimated by management using the vesting term and term of the option. The expected volatility is based on NASDAQ exchange historical volatility. The risk-free interest rate for periods consistent with the expected term of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield is zero as the Bank has not paid dividends to date and does not expect to pay dividends during the de novo period (36 months from Bank inception on May 30, 2019).

EMPLOYEE BENEFIT PLANS (continued)

Stock options (concluded)

A summary of option activity under the Plan as of December 31, 2021, and changes during the year then ended, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding, at beginning of year	1,175	$ 1,000		
Granted	875	1,000		
Forfeited	(500)	(1,000)		
Outstanding and unvested at end of year	1,550	$ 1,000	3.5	$ -

The weighted-average grant-date fair value of options granted during the years ended December 31, 2021 and 2020 were $244 and $181, respectively. No options were exercised or expired during the years ended December 31, 2021 or 2020. 500 options were forfeited during the year ended December 31, 2021 and no options were forfeited during the year ended December 31, 2020. Net share-based compensation expense was $36,000 and $51,000 for the years ended December 31, 2021 and 2020, respectively. Share-based compensation expense for the year ended December 31, 2021 was net of forfeited option expense of $34,000. Unrecognized share-based compensation related to non-vested options amounted to $265,000 at December 31, 2021 and is expected to be recognized over a period of 3.5 years.

Common stock warrants

The Bank adopted the Common Stock Warrant Plan (the "Warrant Plan"), whereby warrants for 3,109 shares were granted to original investors in New Valley Founders, LLC (see Note 1). The warrants allow holders, for a period of ten years after the effective date (May 30, 2019) of the warrants, to purchase 3,109 shares of Bank common stock for $1,000 per share. Warrants do not entitle holders to voting rights or dividends. The purchase price per share of common stock was allocated to the common stock and warrants based on relative fair value. The calculated value of the warrants was $779,000 which was recorded through additional paid-in capital. The calculated value of the warrants was estimated using the Black-Scholes option pricing model with the same assumptions disclosed in the Stock Options section of this footnote.

EMPLOYEE BENEFIT PLANS (concluded)

401(k) plan

The Bank has a 401(k) Plan in which substantially all employees participate. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 4.0% of an employee's compensation contributed to the Plan. Matching contributions immediately vest. For the years ended December 31, 2021 and 2020 expense attributable to the Plan amounted to $79,000 and $64,000, respectively.

14. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of fair value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there may be no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

Securities available for sale - All fair value measurements are obtained from a third-party pricing service and are not adjusted by management. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Assets and liabilities measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
December 31, 2021:				
Securities available for sale	$ -	$ 39,279	$ -	$ 39,279
December 31, 2020:				
Securities available for sale	$ -	$ 21,348	$ -	$ 21,348

No liabilities were measured at fair value on a recurring basis at December 31, 2021 and 2020.

Assets measured at fair value on a non-recurring basis

The Bank may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The Bank does not measure any liabilities at fair value on a non-recurring basis at December 31, 2021 and 2020. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets:

	Level 1	Level 2	Level 3
		(In thousands)	
December 31, 2021:			
Impaired loans	$ -	$ -	$ 153
	$ -	$ -	$ 153

There were no impaired loans at December 31, 2020. Losses on impaired loans for the years ended December 31, 2021 amounted to $558,000. The losses are not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses.

The fair values of impaired loans are based on the appraised value of the underlying property, adjusted for estimated selling costs or the present value of expected future cash flows, using management assumptions. Valuations are based on unobservable inputs and have been discounted to reflect absence of market activity.

15. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Actions taken domestically and across the world to help mitigate the spread of the coronavirus have included restrictions on travel, required quarantine, and mandated closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it continue to have an adverse impact on the economies and financial markets of the geographical area in which the Bank operates. It is unknown how long the adverse conditions associated with the coronavirus pandemic will last and what the complete financial effect will be to the Bank.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 16, 2022, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

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