2021
Annual Report

1st Colonial Bancorp, Inc.

1st Colonial Bancorp, Inc.

April 6, 2022

Dear Fellow Shareholders,

We hope this letter finds you well. It was a fantastic year for our company, even with the lingering effects of the COVID-19 pandemic and the increase to operating costs associated with inflation. Our Company generated record profits of $7.3 million, a 53% increase over 2020 results.

It is clear that we, as well as the entire banking industry, face economic headwinds in 2022 due to continued inflationary pressure as well as further supply chain disruption and general economic uncertainty. We anticipate that the Federal Reserve will raise short-term interest rates, with the intent to slow the economy. Higher short-term interest rates may have a material impact on consumer spending, which may impact both short-term and long-term borrowing needs going forward.

During 2021, we took continued steps to improve our profitability and provide a greater return for our shareholders. Tangible book value increased to $12.23 per share, which represents an increase of 13% over December 31, 2020. As a result of our stock trading below tangible book value, we completed a planned share repurchase plan of 3% of our outstanding common stock in May 2021, and announced a second buyback plan in November 2021. The second buyback plan authorizes the repurchase of up to 4% of the Company's outstanding shares of common stock, with a total cost not to exceed $2.0 million. We believe this is a great use of capital, while still allowing for the execution of our growth plan without impacting our future capital needs through 2023.

We have invested over $800 thousand in technology enhancements as we continue to build out our digital distribution channel. In addition, we invested in fraud prevention tools and resources to prevent fraud related losses as we implement and expand our digital strategy.

Our Company continued to grow in 2021, with 39 new hires, of which 13 were replacements to the existing team. We continue to attract high quality talent in the markets we serve, which provided for our loan growth throughout the year. In 2021, we grew loans by $79 million to $502 million from $423 million at the end of 2020. Our deposits grew by $44 million to $610 million as of December 31, 2021.

Our team remains very focused on providing exceptional service to our clients, as we look to continue growing our market share. We finished 2021 as the 5th ranked Small Business Administration ("SBA") lender for new loan originations in New Jersey. This was a remarkable achievement, as we only re-entered the SBA business in the third quarter of 2020. As a result, our non-interest income grew 59% in 2021 to $9.5 million, up from $6 million in 2020. Our residential lending activities also played a key role in the fee income growth.

Although we believe 2022 presents many challenges, we remain focused on executing our strategic plan. Economic conditions and prudent expense management will be top of mind as we navigate through the year.

We thank you for your continued support.

Sincerely,

Linda M. Rohrer
Chairman of the Board

Robert B. White
President & Chief Executive Officer

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

Shareholders and the Board of Directors
1st Colonial Bancorp, Inc. and Subsidiary
Cherry Hill, New Jersey

Opinion

We have audited the financial statements of 1st Colonial Bancorp, Inc. and Subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2021, and the related consolidated statement of operations, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 1st Colonial Bancorp, Inc. and Subsidiary as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 1st Colonial Bancorp, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of 1st Colonial Bancorp, Inc. and Subsidiary for the year ended December 31, 2020, were audited by other auditors, who expressed an unmodified opinion on those statements on March 30, 2021.

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 1st Colonial Bancorp, Inc. and Subsidiary's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

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 1st Colonial Bancorp, Inc. and Subsidiary'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 1st Colonial Bancorp, Inc. and Subsidiary'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

Washington, D.C.
March 28, 2022

Consolidated Statements of Financial Condition

(Dollars in thousands, except share data)	As of December 31, 2021	2020
Assets		
Cash and due from banks	$ 40,853	$ 37,026
Federal funds sold	24	14
Total cash and cash equivalents	40,877	37,040
Investments held to maturity (fair value of $18,476 as of December 31, 2021 and $55,155 as of December 31, 2020)	18,476	55,155
Investments available for sale ("AFS") (amortized cost of $92,957 as of December 31, 2021 and $80,303 as of December 31, 2020)	93,331	81,872
Bank stock, at cost	1,474	1,739
Mortgage loans held for sale	9,957	21,859
Loans	501,883	423,147
Less allowance for loan losses	(6,906)	(5,624)
Net loans	494,977	417,523
Premises and equipment, net	1,072	769
Accrued interest receivable	1,664	1,811
Deferred tax assets	1,555	1,169
Bank-owned life insurance	16,160	14,739
Other assets	3,291	2,380
Total assets	$ 682,834	$ 636,056
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	$ 610,476	$ 565,820
Subordinated debt, net of issuance costs	10,440	10,404
Other borrowings	-	2,325
Accrued interest payable	303	329
Other liabilities	3,798	3,492
Total liabilities	625,017	582,370
Shareholders' equity:		
Common stock, $0 par value. Authorized 10,000,000 shares; issued 5,120,331 and 5,099,863 shares as of December 31, 2021 and 2020, respectively, and outstanding of 4,726,235 and 4,961,987 shares as of December 31, 2021 and 2020, respectively	-	-
Preferred stock. Authorized 1,000,000 shares, no shares issued	-	-
Additional paid-in capital	38,250	38,035
Retained earnings	22,651	15,393
Accumulated other comprehensive income	272	1,106
Treasury stock at cost, 394,096 and 137,876 shares as of December 31, 2021 and 2020, respectively	(3,356)	(848)
Total shareholders' equity	57,817	53,686
Total liabilities and shareholders' equity	$ 682,834	$ 636,056

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations
For the years ended December 31,

(Dollars in thousands, except share data)	2021	2020
Interest income:		
Loans	$ 23,331	$ 20,514
Federal funds sold and interest-bearing deposits	47	221
Investments:		
Taxable	1,282	1,236
Nontaxable	275	580
Total interest income	24,935	22,551
Interest expense:		
Deposits	2,248	3,890
Subordinated debt	786	276
Other borrowings	3	24
Total interest expense	3,037	4,190
Net interest income	21,898	18,361
Provision for loan losses	1,715	2,140
Net interest income after provision for loan losses	20,183	16,221
Other income:		
Gain on sales of mortgage loans held for sale	4,878	4,049
Gain on sale of guaranteed portion of SBA loans	2,276	243
Mortgage fee income	965	531
Bank-owned life insurance income	802	432
Gain on sale of securities	110	184
Service charges on deposit accounts	92	106
Gain (loss) on real estate owned	(55)	3
Other income and fees	422	409
Total other income	9,490	5,957
Other expenses:		
Compensation and employee benefits	12,422	9,691
Data processing expense	1,606	1,437
Occupancy and equipment expenses	1,245	945
Professional services	734	933
FDIC and state assessments	290	357
Impaired loans and other real estate owned expenses	152	269
Other operating expenses	3,170	2,171
Total other expenses	19,619	15,803
Income before income tax expense	10,054	6,375
Income tax expense	2,796	1,620
Net income	$ 7,258	$ 4,755
Earnings per share:		
Basic earnings per share	$ 1.49	$ 0.96
Diluted earnings per share	$ 1.47	$ 0.95
Weighted average number of shares outstanding:		
Basic earnings per share	4,861,992	4,956,837
Diluted earnings per share	4,953,191	5,000,011

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the years ended December 31,					
	2021			2020		
(In thousands)	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount
Net income	$ 10,054	$ 2,796	$ 7,258	$ 6,375	$ 1,620	$ 4,755
Other comprehensive (loss) income:						
Net unrealized (loss) gains on AFS investment securities:						
Net unrealized holding (loss) gains arising during the period	(1,085)	(331)	(754)	1,394	412	982
Less reclassification adjustment for net gains on sales realized in net income	110	30	80	184	50	134
Total net unrealized (loss) gains on AFS investment securities	(1,195)	(361)	(834)	1,210	362	848
Other comprehensive (loss) income	(1,195)	(361)	(834)	1,210	362	848
Total comprehensive income	$ 8,859	$ 2,435	$ 6,424	$ 7,585	$ 1,982	$ 5,603

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2021 and 2020

(In thousands)	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance as of January 1, 2020	$ -	$ -	$ 36,776	$ 11,720	$ 258	$ (848)	$ 47,906
Stock dividend			1,082	(1,082)			-
Stock issued			116				116
Stock issuance expenses			(2)				(2)
Net unrealized gain on securities available for sale, net of tax					848		848
Stock-based compensation			63				63
Net income				4,755			4,755
Balance as of December 31, 2020	-	-	38,035	15,393	1,106	(848)	53,686
Stock issued			93				93
Stock issuance expenses			-				-
Purchase of treasury stock (256,220 shares)						(2,508)	(2,508)
Net unrealized gain on securities available for sale, net of tax					(834)		(834)
Stock-based compensation			122				122
Net income				7,258			7,258
Balance as of December 31, 2021	$ -	$ -	$ 38,250	$ 22,651	$ 272	$ (3,356)	$ 57,817

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020

(In thousands)	2021	2020
Cash flows from operating activities:		
Net income	$ 7,258	$ 4,755
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	351	242
Net amortization of premium on investment securities	571	438
Net accretion of deferred fees and costs on loans	(2,936)	(1,321)
Amortization of issuance costs on long-term debt	36	12
Stock-based compensation expense	122	63
Gain on sale of investment securities	(110)	(184)
Gain on sales of mortgage loans held for sale	(4,878)	(4,049)
Gain on sales of guaranteed portion of SBA loans	(2,276)	(243)
Provision for loan losses	1,715	2,140
Cash disbursed for mortgage banking activities	(184,595)	(150,044)
Cash received for mortgage banking activities	201,375	136,683
Net losses (gains) on sales of OREO	55	(3)
Net loss on disposals of premises and equipment	63	-
Increase in cash value of bank-owned life insurance, net	(802)	(432)
Increase in deferred income tax benefit	(25)	(77)
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable	147	(114)
Increase in other assets	(911)	(888)
(Decrease) increase in accrued interest payable	(26)	199
Increase in other liabilities	306	867
Total adjustments	8,182	(16,711)
Net cash provided by (used in) operating activities	15,440	(11,956)
Cash flows from investing activities:		
Proceeds from maturities and calls of AFS investment securities	3,000	-
Proceeds from sales of AFS investment securities	1,110	1,684
Proceeds from principal repayment of AFS investment securities	18,585	16,942
Proceeds from maturities of securities held to maturity	54,716	44,993
Purchases of securities available for sale	(35,810)	(48,318)
Purchases of securities held to maturity	(18,037)	(57,381)
Redemption of Federal Home Loan Bank stock	265	399
Proceeds from sale of real estate owned	132	122
Increase in loans receivable, net	(74,144)	(5,091)
Capital expenditures	(717)	(320)
Proceeds from bank owned life insurance policies	1,381	-
Purchase of life insurance policies	(2,000)	(4,500)
Net cash used in investing activities	(51,519)	(51,470)

Consolidated Statements of Cash Flows - Continued
For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from financing activities:		
Net increase in deposits	44,656	43,568
Net (decrease) increase in short-term borrowings	(2,325)	35
Proceeds from long-term borrowings, net of issuance costs	-	10,392
Acquisition of treasury stock	(2,508)	-
Proceeds from exercise of stock options	93	116
Stock issuance costs	-	(2)
Net cash provided by financing activities	39,916	54,109
Net increase (decrease) in cash and cash equivalents	3,837	(9,317)
Cash and cash equivalents at beginning of year	37,040	46,357
Cash and cash equivalents at end of year	$ 40,877	$ 37,040
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ 3,063	$ 3,991
Income taxes paid	3,957	1,368

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Nature of Operations

1st Colonial Bancorp, Inc. (the "Company", "We" or "Our") is a Pennsylvania corporation headquartered in Cherry Hill, New Jersey, and the parent company of 1st Colonial Community Bank (the "Bank"). The Bank opened for business on June 30, 2000 and provides a wide range of business and consumer financial services through its two New Jersey branch offices located in Collingswood and Westville and a loan production office in Haddonfield, New Jersey. On March 29, 2021, the Company opened a retail location in Limerick, Pennsylvania.

The Company was organized as the holding company for the Bank, in connection with the reorganization approved by the Bank's shareholders at the annual meeting on June 12, 2002. As a bank holding company registered under the Bank Holding Company Act of 1956, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank was a national bank until November 1, 2012 when it was granted a state charter by the New Jersey Department of Banking and Insurance. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's operations and those of the Bank are subject to supervision and regulation by FRB, the FDIC, and the New Jersey Department of Banking and Insurance. The principal activity of the Bank is to provide its local communities with general commercial and retail banking services. The Bank is managed as one business segment.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 28, 2022, which is the date the financial statements were available to be issued. No subsequent events occurred requiring accrual or disclosure.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the parent company, 1st Colonial Bancorp, Inc. and its wholly owned subsidiary, 1st Colonial Community Bank. The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles ("GAAP") and, where applicable, to accounting and reporting guidelines prescribed by bank regulatory authorities. Prior period amounts have been reclassified, where necessary, to conform to current year classification.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The COVID-19 pandemic has created extensive disruptions to the global and U.S. economies and to the lives of individuals throughout the world. Governments, businesses, and the public have taken unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures and phased re-opening of businesses and schools, fiscal and monetary stimulus, and legislation designed to deliver financial aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and the efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted market interest rates, increased economic and market uncertainty, and disrupted trade and supply chains.

The ultimate financial impact is unknown at this time. However, if these actions are sustained, it may adversely impact several industries within our geographic footprint and impair the ability of the Company's customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material, adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include, but are not limited to, the valuation impairments of the Company's investments and loans.

Significant Concentration of Credit Risk

Credit risk is one of our most significant risks. It is critical for consistent profitability that we effectively manage credit risk. Most of the Company's activities are with customers located within the Mid-Atlantic region of the country. "Note 4 – Investment Securities" to the Consolidated Financial Statements discusses the types of securities in which the Company invests. "Note 5 – Loans Receivable" to the Consolidated Financial Statements discusses the types of lending in which we engage. We do not have any portion of our business dependent on a single or limited number of customers, the loss of which would have a material adverse effect on our business. We have 91% of our investment portfolio in securities issued by government sponsored entities.

No substantial portion of loans is concentrated within a single industry or group of related industries, except a significant majority of loans are secured by real estate. There are numerous risks associated with commercial and consumer lending that could impact the borrower's ability to repay on a timely basis. They include but are not limited to: the owner's business expertise, changes in local, national, and in some cases international economies, competition, government regulation, and the general financial stability of the borrowing entity. Our commercial real estate, construction and land development, and commercial and industrial loans comprised 40%, 10% and 9%, respectively, of the loan portfolio.

We attempt to mitigate these risks through conservative underwriting policies and procedures which include an analysis of the borrower's business and industry history, its financial position, as well as that of the business owner. We will also require the borrower to provide current financial information on the operation of the business periodically over the life of the loan. In addition, most commercial loans are secured by assets of the business or those of the business owner, which can be liquidated if the borrower defaults, along with the personal surety of the business owner.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Investments

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity ("HTM") and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Securities not classified as held to maturity are classified as available-for-sale ("AFS") and are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), net of tax.

Premiums are amortized and discounts are accreted to interest income using a level yield method over the estimated remaining term of the underlying security. Gains and losses are determined using the specific identification method and are accounted for on a trade date basis.

We evaluate declines in the fair value of securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis. All investment securities are evaluated for OTTI under FASB ASC Topic 320, "Investments-Debt & Equity Securities" ("ASC Topic 320"). In determining whether OTTI exists, management considers numerous factors, including but not limited to: (1) the length of time and the extent to which the fair value is less than the amortized cost, (2) our intent to hold or sell the security, (3) the financial condition and results of the issuer including changes in capital, (4) the credit rating of the issuer, (5) analysts' earnings estimate, (6) industry trends specific to the security, and (7) timing of debt maturity and status of debt payments.

Under ASC Topic 320, OTTI is considered to have occurred with respect to debt securities (1) if an entity intends to sell the security; (2) if it is more likely than not an entity will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. Once a decline in value for a debt security is determined to be other-than-temporary, the OTTI is separated into (a) the amount of the total OTTI related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total OTTI related to all other factors. The amount of the OTTI related to the credit loss is recognized in earnings. The amount of the OTTI related to all other factors is recognized in other comprehensive income. In determining our intent not to sell and whether it is more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, management considers the following factors: current liquidity and availability of other non-pledged assets that permits the investment to be held for an extended period of time but not necessarily until maturity, capital planning, and any specific asset liability committee goals or guidelines related to the disposition of specific investments.

Restricted Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. The Bank is required to acquire and hold shares of capital stock in the FHLB based upon a percentage of the Bank's FHLB borrowings, unused borrowing capacity, and the amount of residential first mortgage loans sold to the FHLB. The FHLB stock is carried at cost and is included in bank stock in the consolidated statements of financial condition. The Bank evaluates FHLB stock for impairment based on the ultimate recoverability of par value rather than by recognizing temporary declines in value.

The Bank is required to maintain an investment in Atlantic Community Bankers Bank ("ACBB") stock. The ACBB stock is carried at cost because it does not have a readily determinable fair value. The Bank had $40 thousand in ACBB stock as of December 31, 2021 and 2020, respectively.

Mortgage Loans Held for Sale

The Bank originates and sells residential mortgage loans with servicing released to the secondary market. This activity enables the Bank to fulfill the credit needs of the community while reducing its overall exposure to interest rate and credit risk. These loans are reported at the lower of their cost or fair market value.

Loans Receivable

Loans receivable are classified as loans held for investment ("LHFI") when management has the intent and ability to hold the loan or lease for the foreseeable future or until maturity or payoff. LHFI are stated at their outstanding unpaid principal balances, net of an allowance for loan and leases losses and any deferred fees or costs. Interest income is accrued on the principal amount outstanding. Loan origination fees and related direct costs are deferred and amortized to interest income over the term of the respective loan as a yield adjustment.

LHFI are segmented into commercial real estate loans, construction and development loans, commercial loans, residential loans, and consumer loans. The commercial real estate loan segment consists of owner-occupied and non-owner occupied commercial real estate loans and multi-family real estate loans. The construction and development loan segment consists of residential and commercial acquisition and development loans. Commercial loans, which are also generally known as commercial and industrial loans, include permanent and short-term working capital and machinery or equipment financing. The residential loan segment consists of primary or secondary home mortgage loans, home equity lines of credit, and home equity loans.

Commercial Real Estate Loans: The commercial real estate loan portfolio consists primarily of loans secured by office buildings, retail and industrial use buildings, strip shopping centers, mixed-use and other properties used for commercial purposes primarily located in our market area. Although terms for commercial real estate and multi-family loans vary, the underwriting standards generally allow for terms up to 10 years with the interest rate being reset in the sixth year and with monthly amortization not greater than 25 years and loan-to-value ratios of not more than 80%.

Interest rates are either fixed or adjustable and are predominantly based upon the prime rate or the five-year U.S. Treasury rate plus a margin. Prepayment fees are charged on most loans in the event of early repayment. Generally, the personal guarantees of the principals are obtained as additional collateral for commercial real estate and multi-family real estate loans.

Construction and Development Loans: We originate construction loans to builders and developers predominantly in our market area. Construction and development loans are riskier than other loan types because they are more speculative in nature. Deteriorating economic or environmental conditions can negatively affect a project. Construction loans are also more difficult to evaluate and monitor. In order to mitigate some of the risks inherent in construction lending, limits are placed on the number of units that can be built on a speculative basis based upon the reputation and financial position of the builder, his/her present obligations, the location of the property and prior sales in the development and the surrounding area. Additionally, the construction budget is reviewed prior to loan origination and the properties under construction are inspected. During the construction phase of a real estate project, the loan requires interest payments only.

Commercial: Our commercial business loans generally have been made to small to mid-sized businesses predominantly located in our market area. The commercial business loans are either a revolving line of credit or for a fixed term. Interest rates are adjustable, indexed to a published prime rate of interest, or fixed. Generally, equipment, machinery, real property or other corporate assets secure such loans. Personal guarantees from the business principals are generally obtained as additional collateral.

Residential Loans: We originate residential mortgage loans that we retain in our loan portfolio to diversify credit risk. We have also acquired residential mortgages through pool purchases. The mortgages we originate or acquire are secured primarily by properties located in our primary market and surrounding areas. We originate home equity loans and home equity lines of credit in our market area. The collateral must be the borrower's primary or secondary residence. Home equity lines of credit are variable rate and are indexed to the prime rate. Our home equity loans are either first or second liens and have a fixed rate. We have originated some home equity lines of credit or home equity loans for investment homes.

Consumer Loans: We originate cash-secured and unsecured loans and lines of credit to individuals. Unsecured consumer loans generally have a higher interest rate than residential loans because they have additional credit risk associated with them.

Loans are reported as non-accrual if they are past due as to principal or interest payments for a period of 90 days or more. Exceptions may be made if a loan is deemed by management to be well collateralized and in the process of collection. Loans that are on a current payment status may also be classified as non-accrual if there is serious doubt as to the borrower's ability to continue interest or principal payments. When a loan is placed on non-accrual all unpaid interest is reversed from interest income. Interest payments received on impaired nonaccrual loans are normally applied against principal. Excess proceeds received over the principal amounts due on impaired non-accrual loans are recognized as income on a cash basis. We recognize income under the accrual basis when the principal payments on the loans become current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, we do not recognize income. Generally, loans are restored to accrual status when the loan is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

A loan modification is deemed a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) a concession is made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. All loans classified as TDRs are considered to be impaired. TDRs are returned to an accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual restructured principal and interest is no longer in doubt. Our policy for TDRs is to recognize interest income on currently performing restructured loans under the accrual method.

Allowance for Loan Losses

Our loan portfolio is subject to varying degrees of credit risk. The allowance for loan losses (the "allowance") represents management's estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The allowance is increased by the provision for loan and losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment or collateral recovery of all, or part, of the principal balance is highly unlikely. The allowance represents an estimation made pursuant to FASB ASC Topic 450, "Contingencies" ("ASC Topic 450") or FASB ASC Topic 310, "Receivables" ("ASC Topic 310"). The adequacy of the allowance is determined through evaluation of the loan portfolio, and involves consideration of a number of factors, as outlined below, to establish a prudent level. We consider that the determination of the allowance involves a higher degree of judgment and complexity than our other significant accounting policies. Our systematic methodology for assessing the appropriateness of the allowance includes: (1) general reserves reflecting historical loss rates by loan type, (2) specific reserves for risk-rated credits based on probable losses on an individual or portfolio basis and (3) qualitative reserves based upon current economic conditions and other risk factors. We also have a reserve for unfunded lending commitments, which represents management's estimate of losses inherent in those commitments. The reserve for unfunded loan commitments is adjusted by a provision for credit losses on off-balance sheet credit exposures and is recorded in other liabilities on the consolidated statement of financial condition.

The loan portfolio is stratified into loan classifications that have similar risk characteristics. The general allowance is based upon historical loss rates using a six-year rolling average of the historical loss experienced within each loan segment. The qualitative factors used to adjust the historical loss experience address various risk characteristics of the our loan portfolio include evaluating: (1) trends in delinquencies and other non-performing loans, (2) changes in the risk profile related to large loans in the portfolio, (3) changes in the growth trends of categories of loans comprising the loan portfolio, (4) concentrations of loans to specific industry segments, (5) changes in economic conditions on both a local and national level, (6) quality of loan review and board oversight, (7) changes in lending policies and procedures, and (8) changes in lending staff. Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a report accompanying the allowance calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial and construction and development loans or when credit deficiencies arise, such as delinquent loan payments, for all loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance. Loans not classified as special mention, substandard, doubtful or loss are rated pass.

The specific reserves are determined utilizing standards required under ASC Topic 310. We identify a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Non-accrual loans and loans restructured under a TDR are evaluated for impairment on an individual basis considering all known relevant factors that may affect loan collectability such as the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the sufficiency of current collateral values (current appraisals or rent rolls for income producing properties), and risks inherent in different kinds of lending (such as source of repayment, quality of borrower and concentration of credit quality). Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and construction loans 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. The estimated fair values of substantially all of our impaired loans are measured based on the estimated fair value of the loan's collateral. We obtain third-party appraisals or valuations to establish the fair value of real estate collateral. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value less estimated costs to sell the property. For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. A specific reserve is established for an impaired loan for the amount that the carrying value exceeds its estimated fair value. Once a loan is determined to be impaired it will be deducted from the portfolio balance and the net remaining balance of the portfolio will be used in the general and qualitative analysis.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the useful lives or the remaining lease term. Software costs, furniture, and equipment have depreciable lives of 3 to 10 years. Building and improvements have estimated useful lives of 5 to 35 years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Leases

Our leases are operating leases and are predominantly related to real estate. As a lessee we record, for all leases with a lease term of more than 12 months, an asset representing our right to use the underlying asset and a liability to make lease payments. The right-of-use ("ROU") asset is included in other assets and the lease liability is included in other liabilities on the balance sheet. The amortization of operating lease ROU assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in occupancy and equipment expense within other expense. The fixed lease expense is recognized on a straight-line basis over the life of the lease. The Company has elected to exclude leases with original terms of less than one year from the operating lease ROU assets and lease liabilities.

Other Real Estate Owned

Other real estate owned ("OREO") is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Real estate owned is recorded at the lower of the carrying value of the loan or the fair value of the property, net of estimated selling costs. Costs relating to the development or improvement of properties are capitalized, while expenses related to the operation and maintenance of properties are expensed as incurred. Gains or losses upon dispositions are reflected in earnings as realized. The Bank had no OREO as of December 31, 2021 and 2020.

Bank-Owned Life Insurance

We have bank-owned life insurance ("BOLI") policies on certain officers and key employees. These policies are reflected on the consolidated statements of financial condition at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in non-interest income. During 2021, we received $1.4 million in insurance proceeds related to a former employee covered by a BOLI policy. We recorded $385 thousand in income from these proceeds and it is included in BOLI income on our Consolidated Statements of Operations.

Earnings Per Share

Basic earnings per share is calculated as net income divided by the weighted average number of shares outstanding during the period. Dilutive earnings per share include dilutive common stock equivalents as computed under the treasury stock method using average common stock prices.

Income Taxes

The Company and the Bank file a consolidated federal income tax return and a consolidated New Jersey income tax return. The Company and the Bank file separate Pennsylvania tax returns. Income taxes are allocated to the Company and the Bank based on the contribution of their income or use of their loss in the consolidated return. As of December 31, 2021, tax years 2018 through 2020 are subject to federal examination by the IRS and years 2017 through 2020 are subject to state examination by various state taxing authorities. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become available.

We account for income taxes in accordance with FASB ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes", ("ASC 740") which includes guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. We had no unrecognized tax benefits or accrued interest and penalties as of December 31, 2021 and 2020. We classify interest and penalties as an element of tax expense.

Share-Based Compensation

The Company accounts for all share-based payments to be recognized as compensation expense in the consolidated financial statements based on their fair values at the grant date. That expense will be recognized on a straight-line basis over the period during which services are provided in exchange for the award, known as the requisite service period (usually, the vesting period).

Recent Accounting Pronouncements

In June 2016, FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments-Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The amendments in ASU 2016-13 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect financial assets such as loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The amendments in ASU 2016-13 require the measurement of expected credit losses to based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.

The amendments in ASU 2016-13 will become effective for the Company for financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. An entity will apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, modified-retrospective approach).

We are working with a third-party vendor in developing a methodology that is in compliance with this ASU. We are currently evaluating the impact of the amendments in ASU 2016-13 on our consolidated financial statements. We believe that expected credit losses under ASU 2016-13 will generally result in earlier loss recognition on our loan portfolio.

Note 3. Cash and Due from Banks

The Bank was required to maintain certain daily average reserve balances in accordance with FRB requirements. On March 15, 2020, the FRB Board reduced reserve requirements to 0% effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. The Bank was required to maintain $50 thousand in cash reserves at its correspondent banks as of December 31, 2021 and 2020.

Note 4. Investment Securities

A comparison of amortized cost and fair value of investment securities held to maturity and securities available for sale as of December 31, 2021 and 2020 is as follows:

As of December 31, 2021

		HTM unrecognized/ AFS unrealized		
(In thousands)	Amortized Cost	Gross gains	Gross losses	Fair value
Investments HTM:				
Municipal securities	$ 17,976	$ -	$ -	$ 17,976
Corporate bonds	500	-	-	500
Total	$ 18,476	$ -	$ -	$ 18,476
Investments AFS:				
U.S. government securities	$ 30,480	$ 4	$ (325)	$ 30,159
Mortgage-backed securities	53,009	650	(233)	53,426
Corporate bonds	9,468	278	-	9,746
Total	$ 92,957	$ 932	$ (558)	$ 93,331

As of December 31, 2020

(In thousands)	Amortized Cost	HTM unrecognized/ AFS unrealized Gross gains	Gross losses	Fair value
Investments HTM:				
Municipal securities	$ 55,155	$ -	$ -	$ 55,155
Total	$ 55,155	$ -	$ -	$ 55,155
Investments AFS:				
U.S. government securities	$ 13,500	$ 23	$ (6)	$ 13,517
Mortgage-backed securities	56,768	1,318	-	58,086
Corporate bonds	10,035	260	(26)	10,269
Total	$ 80,303	$ 1,601	$ (32)	$ 81,872

The scheduled maturities of investment securities held to maturity and securities available for sale as of December 31, 2021 are as follows:

	HTM Investments		AFS Investmemts	
(In thousands)	Amortized Cost	Fair value	Amortized Cost	Fair value
Due in one year or less	$ 16,499	$ 16,499	$ 104	$ 108
Due after one year up to five	1,477	1,477	28,835	28,664
Due after five years up to ten	500	500	36,709	37,078
Due after ten years	-	-	27,309	27,481
	$ 18,476	$ 18,476	$ 92,957	$ 93,331

Proceeds from sales and maturities of securities available for sale totaled $1.1 million and $1.7 million during 2021 and 2020, respectively. Gains realized from the sale of securities were $110 thousand and $184 thousand in 2021 and 2020, respectively.

As of December 31, 2021 and 2020, investment securities with a market value of $65.0 million and $74.1 million, respectively, were pledged as collateral for uninsured municipal deposits, uninsured deposits underlying retail repurchase agreements, and the FHLB for potential borrowings.

Gross unrecognized and unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrecognized and unrealized loss positions as of December 31, 2021 and 2020 are as follows:

As of December 31, 2021

	Less than 12 months			12 months or longer			Total		
(In thousands)	Fair value	Gross unrecognized/ unrealized losses	Number of positions	Fair value	Gross unrecognized/ unrealized losses	Number of positions	Fair value	Gross unrecognized/ unrealized losses	Number of positions
Investments HTM:									
Municipal securities	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Corporate bonds	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Investments AFS:									
U.S. government securities	$ 21,270	$ (230)	5	$ 3,905	$ (95)	1	$ 25,175	$ (325)	6
Mortgage-backed securities	34,138	(233)	9	-	-	-	34,138	(233)	9
Corporate bonds	-	-	-	-	-	-	-	-	-
Total	$ 55,408	$ (463)	14	$ 3,905	$ (95)	1	$ 59,313	$ (558)	15

As of December 31, 2020

	Less than 12 months			12 months or longer			Total		
(In thousands)	Fair value	Gross unrecognized/ unrealized losses	Number of positions	Fair value	Gross unrecognized/ unrealized losses	Number of positions	Fair value	Gross unrecognized/ unrealized losses	Number of positions
Investments HTM:									
Municipal securities	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Investments AFS:									
U.S. government securities	$ 3,994	$ (6)	1	$ -	$ -	-	$ 3,994	$ (6)	1
Mortgage-backed securities	-	-	-	-	-	-	-	-	-
Corporate bonds	2,487	(26)	3	-	-	-	2,487	(26)	3
Total	$ 6,481	$ (32)	4	$ -	$ -	-	$ 6,481	$ (32)	4

For debt 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 debt security in an unrealized loss position before recovery of it's amortized cost basis. For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary by the Company. The temporary impairment of fixed rate investments is likely to continue in a rising interest rate environment. Because we have the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other than temporarily impaired.

All temporarily impaired investments are bank-qualified investments. There has been no significant change in the credit quality of issuers since the securities were purchased.

Note 5. Loans Receivable

Loans receivable consist of the following as of December 31, 2021 and 2020:

(In thousands)	December 31, 2021	December 31, 2020
Commercial real estate	$ 201,838	$ 175,801
Construction and land development	51,809	36,764
Commercial	43,497	55,755
Residential real estate	203,485	152,895
Consumer	1,254	1,932
	501,883	423,147
Less allowance for loan losses	(6,906)	(5,624)
	$ 494,977	$ 417,523

The Bank is subject to a loans-to-one-borrower limitation of 15% of capital funds. As of December 31, 2021, the loans-to-one-borrower limitation was $9.7 million compared to $8.7 million as of December 31, 2020. As of December 31, 2021 and 2020, there are no loans outstanding or committed to any one borrower that individually or in the aggregate exceed those limits.

The Bank lends primarily to customers in its local market area. Most loans are mortgage loans. Mortgage loans include loans secured by commercial and residential real estate and construction loans. Accordingly, lending activities could be affected by changes in the general economy, the regional economy, or real estate values. As of December 31, 2021 and 2020, mortgage loans totaled $457.1 million and $365.5 million, respectively. Mortgage loans represent 91.1% and 86.4% of total gross loans as of December 31, 2021 and 2020, respectively.

During 2021 and 2020 we participated in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") and originated a total of $95.4 million in PPP loans. The majority of these loans were to our existing customers or referrals. As of December 31, 2021, approximately 85% of our PPP loans have been forgiven by the SBA. During 2021, we recognized in interest income $2.4 million of net deferred SBA PPP fees compared to $908 thousand for 2020.

As of December 31, 2021, PPP loans outstanding were $14.0 million with approximately $548 thousand in unrecognized net deferred fees. The timing of the recognition of these fees is dependent upon the SBA forgiveness process. PPP loans are included in the commercial loan balance in the above table.

As part of the process of determining the allowance, management segments the loan portfolio by product type. For the commercial real estate, construction, and commercial loan segments, periodic reviews of the individual loans are performed by both in-house staff as well as third-party loan reviewers. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

Pass – Loans considered to be satisfactory with no indications of deterioration.

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 bank's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all 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.

Non-accrual (substandard non-accrual, doubtful): includes credits that demonstrate serious problems to the point that it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement.

In addition, the remaining segments of the loan portfolio, which include residential real estate and consumer loans are allocated portions of the allowance based on their performance status.

The following tables present risk ratings for each loan portfolio classification as of December 31, 2021 and December 31, 2020.

December 31, 2021 (In thousands)	Pass	Special Mention	Substandard	Doubtful	Nonaccrual	Total
Commercial real estate	$ 199,102	$ 1,227	$ 833	$ -	$ 676	$ 201,838
Construction and land development	47,787	2,130	-	-	1,892	51,809
Commercial	42,623	234	-	-	640	43,497
Total	$ 289,512	$ 3,591	$ 833	$ -	$ 3,208	$ 297,144

December 31, 2020 (In thousands)	Pass	Special Mention	Substandard	Doubtful	Non-accrual	Total
Commercial real estate	$ 171,728	$ 2,034	$ 1,153	$ -	$ 886	$ 175,801
Construction and land development	33,381	1,286	-	-	2,097	36,764
Commercial	54,392	468	65	-	830	55,755
Total	$ 259,501	$ 3,788	$ 1,218	$ -	$ 3,813	$ 268,320

The following tables present the recorded investment in residential and consumer loans based on payment activity:

December 31, 2021 (In thousands)	Performing	Nonaccrual	Total
Residential real estate	$ 203,167	$ 318	$ 203,485
Consumer	1,254	-	1,254
Total	$ 204,421	$ 318	$ 204,739

December 31, 2020 (In thousands)	Performing	Nonaccrual	Total
Residential real estate	$ 151,914	$ 981	$ 152,895
Consumer	1,932	-	1,932
Total	$ 153,846	$ 981	$ 154,827

The following tables present an aging analysis of past due payments for each loan portfolio classification as of December 31, 2021 and December 31, 2020.

December 31, 2021 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ -	$ -	$ -	$ 676	$ 201,162	$ 201,838
Construction and land development	-	-	-	1,892	49,917	51,809
Commercial	12	-	-	640	42,845	43,497
Residential real estate	1,164	177	-	318	201,826	203,485
Consumer	-	-	-	-	1,254	1,254
Total loans, net of unearned income	$ 1,176	$ 177	$ -	$ 3,526	$ 497,004	$ 501,883

December 31, 2020 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ 251	$ -	$ -	$ 886	$ 174,664	$ 175,801
Construction and land development	-	-	-	2,097	34,667	36,764
Commercial	43	-	-	830	54,882	55,755
Residential real estate	348	-	-	981	151,566	152,895
Consumer	2	-	-	-	1,930	1,932
Total loans, net of unearned income	$ 644	$ -	$ -	$ 4,794	$ 417,709	$ 423,147

The Bank had 11 non-accrual loans as of December 31, 2021 in the amount of $3.5 million compared to 14 non-accrual loans in the amount of $4.8 million as of December 31, 2020. During 2021 we transferred $847 thousand to non-accrual; recorded $1.1 million in principal reductions and charged-off $677 thousand. All of the non-accrual loans were impaired. If interest had accrued on these loans, such income would have been approximately $281 thousand and $367 thousand for the years ended December 31, 2021 and 2020, respectively. The specific reserves associated with the non-accrual loans were $640 thousand and $0 as of December 31, 2021 and 2020, respectively.

Troubled Debt Restructuring

The following table details our TDRs that are on an accrual status and non-accrual status as of December 31, 2021 and December 31, 2020.

	As of December 31, 2021			
(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	2	$ -	$ 403	$ 403
Commercial	1	-	640	640
Residential real estate	1	283	-	283
Total	4	$ 283	$ 1,043	$ 1,326

	As of December 31, 2020			
(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	3	$ 72	$ 466	$ 538
Commercial	1	-	781	781
Residential real estate	4	276	-	276
Total	8	$ 348	$ 1,247	$ 1,595

The following tables present the new TDRs that occurred during the years ended December 31, 2021 and 2020.

	Modifications by type for the year ended December 31, 2021							
(In thousands)	Number of loans	Rate	Term	Payment	Combination of types	Total	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	1	$ -	$ -	$ 283	$ -	$ 283	$ 287	$ 287
Total	1	$ -	$ -	$ 283	$ -	$ 283	$ 287	$ 287

Modifications by type for the year ended December 31, 2020								
(In thousands)	Number of loans	Rate	Term	Payment	Combination of types	Total	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ -	$ -	$ -	$ 781	$ 781	$ 1,993	$ 1,933
Total	2	$ -	$ -	$ -	$ 781	$ 781	$ 1,993	$ 1,933

Allowance for Loan Losses

The following table details the roll forward of the allowance and the loan portfolio disaggregated by loan portfolio classification for the twelve-months ended December 31, 2021 and 2020:

December 31, 2021 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 2,999	$ 381	$ 954	$ 1,268	$ 22	$ 5,624
Charge-offs	(181)	(491)	(85)	-	(6)	(763)
Recoveries	184	-	124	15	7	330
Provision (credit)	(194)	935	394	587	(7)	1,715
Ending balance	$ 2,808	$ 825	$ 1,387	$ 1,870	$ 16	$ 6,906
Ending balance: related to loans individually evaluated for impairment	$ -	$ -	$ 640	$ -	$ -	$ 640
Ending balance: related to loans collectively evaluated for impairment	$ 2,808	$ 825	$ 747	$ 1,870	$ 16	$ 6,266
Loan Balances						
Ending balance	$ 201,838	$ 51,809	$ 43,497	$ 203,485	$ 1,254	$ 501,883
Ending balance: individually evaluated for impairment	$ 675	$ 1,892	$ 640	$ 602	$ -	$ 3,809
Ending balance: collectively evaluated for impairment	$ 201,163	$ 49,917	$ 42,857	$ 202,883	$ 1,254	$ 498,074

December 31, 2020 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 3,173	$ 689	$ 1,372	$ 1,386	$ 51	$ 6,671
Charge-offs	(1,781)	(393)	(1,624)	(48)	(10)	(3,856)
Recoveries	284	80	270	25	10	669
Provision (credit)	1,323	5	936	(95)	(29)	2,140
Ending balance	$ 2,999	$ 381	$ 954	$ 1,268	$ 22	$ 5,624
Ending balance: related to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 2,999	$ 381	$ 954	$ 1,268	$ 22	$ 5,624
Loan Balances						
Ending balance	$ 175,801	$ 36,764	$ 55,755	$ 152,895	$ 1,932	$ 423,147
Ending balance: individually evaluated for impairment	$ 958	$ 2,097	$ 830	$ 1,257	$ -	$ 5,142
Ending balance: collectively evaluated for impairment	$ 174,843	$ 34,667	$ 54,925	$ 151,638	$ 1,932	$ 418,005

The following tables details the impaired loans by loan classification as of December 31, 2021 and December 31, 2020.

	As of and for the year ended December 31, 2021					
(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
With no related allowance recorded:						
Commercial real estate	$ 1,075	$ 675	$ -	$ 989	$ -	$ 15
Construction	2,383	1,892	-	2,040	-	-
Commercial	-	-	-	647	-	2
Residential real estate	716	602	-	1,112	21	38
Total:	$ 4,174	$ 3,169	$ -	$ 4,788	$ 21	$ 55
With an allowance recorded:						
Commercial real estate	$ -	$ -	$ -	$ 32	$ -	$ -
Construction and land development	-	-	-	18	-	-
Commercial	1,458	640	640	66	-	-
Residential real estate	-	-	-	17	-	-
Total:	$ 1,458	$ 640	$ 640	$ 133	$ -	$ -

	As of and for the year ended December 31, 2020					
(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
With no related allowance recorded:						
Commercial real estate	$ 1,382	$ 958	$ -	$ 992	$ -	$ 86
Construction	2,097	2,097	-	806	-	-
Commercial	1,648	830	-	1,357	-	11
Residential real estate	1,501	1,257	-	1,172	15	1
Total:	$ 6,628	$ 5,142	$ -	$ 4,327	$ 15	$ 98
With an allowance recorded:						
Commercial real estate	$ -	$ -	$ -	$ 1,120	$ 5	$ -
Construction and land development	-	-	-	60	-	-
Commercial	-	-	-	384	-	-
Residential real estate	-	-	-	289	-	-
Total:	$ -	$ -	$ -	$ 1,853	$ 5	$ -

Note 6. Premises and Equipment, Net

Premises and equipment as of December 31, 2021 and 2020 are summarized as follows (dollars in thousands):

(In thousands)	Estimated Useful Lives	As of December 31, 2021	As of December 31, 2020
Land		$ 122	$ 122
Buildings and leasehold improvements	5 - 35 years	1,215	1,005
Furniture, fixtures and equipment	3 - 10 years	1,990	1,613
Premises and equipment, gross		3,327	2,740
Less accumulated depreciation and amortization		(2,255)	(1,971)
Premises and equipment, net		$ 1,072	$ 769

Depreciation expense was $351 thousand and $242 thousand for the years ended December 31, 2021 and 2020, respectively, and is recorded in occupancy and equipment expenses.

Note 7. Deposits

Deposits consist of the following major classifications as of December 31, 2021 and 2020:

(Dollars in thousand)	As of December 31, 2021	As of December 31, 2020
Non-interest checking	$ 92,924	$ 81,815
Interest checking	256,490	247,838
Money market deposits	42,791	29,088
Savings deposits	90,971	92,596
Certificates of deposit ($250 and over)	40,352	41,624
Certificates of deposit (less than $250)	86,290	67,211
Brokered deposits	658	5,648
Total deposits	$ 610,476	$ 565,820

The Bank has a concentration of deposits from local municipalities. Municipal deposits, which are mostly interest-checking accounts, were $233.7 million or 38.3% of total deposits as of December 31, 2021, and $230.2 million or 40.7% of total deposits as of December 31, 2020. Municipal deposit accounts in excess of $250 thousand are collateralized by investment securities with a carrying value of $65.1 million as of December 31, 2021 and a $120.0 million FHLB Municipal Letter of Credit.

Interest expense on deposits consisted of the following for the years ended December 31, 2021 and 2020:

(In thousands)	2021	2020
Interest checking	$ 432	$ 1,206
Money market deposits	89	89
Savings deposits	251	293
Certificates of deposit	1,476	2,302
Total interest expense on deposits	$ 2,248	$ 3,890

The following is a schedule of certificates of deposit, which includes the brokered deposits, by maturities as of December 31, 2021:

(In thousands)	As of December 31, 2021
2022	$ 87,441
2023	22,299
2024	9,223
2025	3,550
2026	4,787
Total certificates of deposits	$ 127,300

Note 8. Borrowing Availability

Federal Home Loan Bank

The Bank is a member of the FHLB of Pittsburgh and has access to overnight and term advances. As of December 31, 2021, we had $120.0 million in short-term municipal letters of credit outstanding and $66.7 million in additional borrowing capacity. The FHLB line of credit is secured with residential and commercial mortgage loans totaling $231.7 million and securities with an aggregate market value of $3 thousand. As of December 31, 2020, we had $107.0 million in municipal letters of credit outstanding and $40.1 million in additional borrowing capacity. The borrowing potential was secured with residential and commercial mortgage loans totaling $184.5 million and securities with an aggregate market value of $12 thousand. As of December 31, 2021 and 2020, the Bank had no outstanding advances against its lines of credit. The average balance of FHLB advances was $27 thousand and $0 for 2021 and 2020, respectively.

Federal Reserve Bank

As of December 31, 2021, we had $98.1 million in borrowing capacity at the FRB. The FRB line of credit is secured with commercial, construction and residential and commercial mortgage loans totaling $144.1 million. The Bank did not borrow from the FRB during 2021. We did not have any borrowing capacity with the FRB in 2020.

Repurchase Agreements

Historically, the Bank has sold securities under agreements to repurchase as a funding source. These agreements were cancelled in 2021. As of December 31, 2020, the Bank had $2.3 million of securities sold under agreements to repurchase with a weighted average fixed rate of 0.29% with maturity dates not exceeding one year. The underlying securities for the repurchase agreements had an aggregate market value of $2.5 million as of December 31, 2020 and were predominantly U.S. government-sponsored mortgage-backed securities.

Subordinated Debt

On August 26, 2020, the Company issued $10.750 million of 7.00% fixed-to-floating rate subordinated notes with a maturity date of September 1, 2030. The subordinated notes, which qualify as Tier 2 capital, bear interest at an annual rate of 7.00%, payable semi-annually in arrears and a floating rate of interest equivalent to the 3-month Secured Overnight Financing Rate (SOFR) plus 6.89% payable quarterly in arrears commencing on September 1, 2025. The subordinated debt issuance costs of approximately $359 thousand are being amortized over five years on a straight-line basis into interest expense. The carrying value of subordinated debt was $10.4 million as of December 31, 2021 and 2020.

Other Lines of Credit

As of December 31, 2021 and 2020, the Bank had an unsecured line of credit with Atlantic Community Bankers Bank ("ACBB") in the aggregate amount of $8.0 million. There was no outstanding balance as of December 31, 2021 and 2020. The average balance of the ACBB line was $24 thousand and $11 thousand for 2021 and 2020, respectively.

As of December 31, 2021 and 2020, 1st Colonial Bancorp, Inc. had a secured line of credit with ACBB in the aggregate amount of $2.5 million. The ACBB line is secured with 100% of the voting stock of 1st Colonial Community Bank. As of December 31, 2021 and 2020, there were no outstanding balances against this line. There were no amounts outstanding in 2021 and 2020 under this line.

Note 9. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculation for the years ended December 31, 2021 and 2020:

(In thousands, except for per share data)	Net Income	Average shares	Per share Amount
2021:			
Basic earnings per share	$ 7,258	4,861,992	$ 1.49
Effect of dilutive stock equivalents	-	91,199	(0.02)
Diluted earnings per share	$ 7,258	4,953,191	$ 1.47
2020:			
Basic earnings per share	$ 4,755	4,956,837	$ 0.96
Effect of dilutive stock equivalents	-	43,174	(0.01)
Diluted earnings per share	$ 4,755	5,000,011	$ 0.95

Basic earnings per share is calculated on the basis of weighted average number of shares outstanding. Diluted earnings per share is calculated on the basis of weighted average number of shares outstanding and common stock equivalents ("CSEs") that would arise from the exercise of dilutive securities. For 2021, the Company granted a total of 55,069 restricted stock unit awards, which are considered CSEs, and options to acquire a total of 124,500 shares of common stock. Options to purchase 407,592 and 332,041 shares of common stock were outstanding as of December 31, 2021 and 2020, respectively. Options to purchase 174,290 and 157,263 shares were antidilutive for 2021 and 2020, respectively, and excluded from the earnings per share calculations.

Note 10. Fair Value of Financial Instruments

Under FASB ASC Topic 820 "Fair Value Measurements and Disclosures" ("ASC Topic 820"), fair values are based on 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. When available, management uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, we use unobservable inputs to determine appropriate valuation adjustments using discounted cash flow methodologies.

Management uses its best judgment in estimating the fair value of our financial instruments; however, there are inherent weaknesses in any estimation technique. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

ASC Topic 820 provides guidance for estimating fair value when the volume and level of activity for an asset or liability has significantly declined and for identifying circumstances when a transaction is not orderly. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability. Level 2 includes debt securities with quoted prices that are traded less frequently then exchange-traded instruments. Valuation techniques include matrix pricing which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. We did not have transfers of financial instruments within the fair value hierarchy during the years ended December 31, 2021 and 2020.

<u>Items Measured on a Recurring Basis</u>

Our available for sale investment securities are recorded at fair value on a recurring basis.

Fair value for Level 1 securities are determined by obtaining quoted market prices on nationally recognized securities exchanges. We do not have any level 1 securities.

Level 2 securities include obligations of U.S. government-sponsored agencies and debt securities with quoted prices, which are traded less frequently than exchange-traded instruments, whose value is determined using matrix pricing with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The prices were obtained from third party vendors. This category generally includes our mortgage-backed securities and CMOs issued by U.S. government and government-sponsored agencies, and municipal bonds.

<u>Items Measured on a Nonrecurring Basis</u>

Non-accrual loans and TDRs are evaluated for impairment on an individual basis under FASB ASC Topic 310 "Receivables". The impairment analysis includes current collateral values, known relevant factors that may affect loan collectability, and risks inherent in different kinds of lending. When the collateral value less costs to sell is less than the carrying value of the loan a specific reserve (valuation allowance) is established. OREO is carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the real estate. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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

As of December 31, 2021 (In thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets measured at fair value on a recurring basis				
Investment securities:				
U.S. government agencies	$ -	$ 30,159	$ -	$ 30,159
Mortgage-backed securities-residential	-	53,426	-	53,426
Corporate bonds	-	9,746	-	9,746
Total assets measured at fair value on a recurring basis	$ -	$ 93,331	$ -	$ 93,331
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 3,809	$ 3,809
Other real estate owned	-	-	-	-
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 3,809	$ 3,809

As of December 31, 2020 (In thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets measured at fair value on a recurring basis				
Investment securities:				
U.S. government agencies	$ -	$ 13,517	$ -	$ 13,517
Mortgage-backed securities-residential	-	58,086	-	58,086
Corporate bonds	-	10,269	-	10,269
Total assets measured at fair value on a recurring basis	$ -	$ 81,872	$ -	$ 81,872
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 5,142	$ 5,142
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 5,142	$ 5,142

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which we have utilized Level 3 inputs to determine fair value as of December 31, 2021 and December 31, 2020:

As of December 31, 2021	Qualitative Information about Level 3 Fair Value Measurements					
		Valuation	Unobservable	Range		
(In thousands)	Fair Value	Techniques	Input	(Weighted Average)		
Impaired loans	$ 3,809	Appraisal of collateral	Liquidation expenses	0%	-13.07%	(-6.81%)

As of December 31, 2020	Qualitative Information about Level 3 Fair Value Measurements					
		Valuation	Unobservable	Range		
(In thousands)	Fair Value	Techniques	Input	(Weighted Average)		
Impaired loans	$ 5,142	Appraisal of collateral	Liquidation expenses	0%	-8.62%	(-6.42%)

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

	Fair Value Measurements As of December 31, 2021				
(In thousands)	Carrying value	Estimated fair value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 40,877	$ 40,877	$ 40,877	$ -	$ -
Investments held to maturity	18,476	18,476	-	18,476	-
Investments available for sale	93,331	93,331	-	93,331	-
Restricted bank stock, at cost	1,474	NA	-	-	NA
Mortgage loans held for sale	9,957	9,957	-	9,957	-
Loans receivable, net	494,977	498,109	-	-	498,109
Accrued interest receivable	1,664	1,664	-	-	1,664
Financial liabilities:					
Demand deposits	349,414	349,414	-	349,414	-
Money market deposits	42,791	42,791	-	42,791	-
Savings deposits	90,971	90,971	-	90,971	-
Certificates of deposit	127,300	128,555	-	128,555	-
Subordinated debt, net	10,440	10,166		10,166	-
Other borrowings	-	-	-	-	-
Accrued interest payable	303	303	-	303	-

			Fair Value Measurements As of December 31, 2020		
(In thousands)	Carrying value	Estimated fair value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 37,040	$ 37,040	$ 37,040	$ -	$ -
Investments held to maturity	55,155	55,155	-	55,155	-
Investments available for sale	81,872	81,872	-	81,872	-
Restricted bank stock, at cost	1,739	NA	-	-	NA
Mortgage loans held for sale	21,859	21,859	-	21,859	-
Loans receivable, net	417,523	419,954	-	-	419,954
Accrued interest receivable	1,811	1,811	-	-	1,811
Financial liabilities:					
Demand deposits	329,653	329,653	-	329,653	-
Money market deposits	29,088	29,088	-	29,088	-
Savings deposits	92,596	92,596	-	92,596	-
Certificates of deposit	114,483	116,071	-	116,071	-
Subordinated debt, net	10,404	10,371		10,371	
Other borrowings	2,325	2,323	-	2,323	-
Accrued interest payable	329	329	-	329	-

Note 11. Income Taxes

The components of income tax expense (benefit) are stated below:

	For the years ended December 31,	
(In thousands)	2021	2020
Income tax expense (benefit)		
Federal		
Current	$ 1,777	$ 1,033
Deferred	(103)	(30)
	1,674	1,003
State		
Current	1,044	664
Deferred	78	(47)
	1,122	617
Total income tax expense	$ 2,796	$ 1,620

The following is a reconciliation between expected tax expense at the statutory rate of 21% for 2021 and 2020 and actual tax expense:

(In thousands)	For the years ended December 31, 2021	2020
Computed tax expense at statutory rate	$ 2,112	$ 1,339
Adjustments resulting from:		
State tax, net of federal benefit	886	471
Tax-exempt interest income	(77)	(137)
Bank owned life insurance	(168)	(91)
Stock-based compensation	5	24
Other	38	14
Income tax expense	$ 2,796	$ 1,620

Significant deferred tax assets and liabilities of the Bank as of December 31, 2021 and 2020 are as follows:

(In thousands)	As of December 31, 2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 1,911	$ 1,660
Deferred rent	18	29
Share-based compensation cost	113	116
PPP loan origination fees	173	140
Unfunded loan commitments	169	118
Non-accrual interest	13	36
Other	15	17
Deferred tax assets	2,412	2,116
Deferred tax liabilities:		
Depreciation	(164)	(75)
Unrealized gains on AFS debt securities	(102)	(463)
Prepaid expenses	(16)	(21)
Deferred loan costs	(575)	(388)
Total deferred tax liabilities	(857)	(947)
Net deferred tax asset, included in other assets	$ 1,555	$ 1,169

The realizability of deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities, and tax planning strategies. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating loss carryforwards are available and the temporary differences representing net future deductibles reverse. Based upon these and other factors management has determined that it is more likely than not that the Company will realize the benefits of the deferred tax assets that exist as of December 31, 2021.

As of December 31, 2021 and 2020, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

As of December 31, 2021, the years 2018 – 2020 are open for federal examination and years 2017-2020 are open for state examinations.

Note 12. Leases

The Company has operating leases for a retail branch, our operation and administration center (main office) and certain equipment. On commencement date of a new lease, the Company recognizes a ROU asset, which represents the right to use an underlying asset for the lease term, and a lease liability, which represent an obligation to make lease payments arising from the lease. The ROU assets are included in other assets and lease liabilities are included in other liabilities. The Company's leases have remaining lease terms of eight months to three years, some of which include options to extend the leases for up to five years. The main office lease expires on November 30, 2022, with an option to renew for two additional five-year terms. Because we may need to expand our office space, the extension options were excluded from the calculations of the ROU asset and lease liability.

The following table presents the ROU assets and the lease liability for the years ended December 31, 2021 and 2020.

	For the years ended December 31,	
(In thousands)	2021	2020
ROU asset	$ 558	$ 459
Lease liabilitity	$ 617	$ 557

The following table presents operating lease costs for the years ended December 31, 2021 and 2020.

	For the years ended December 31,	
(In thousands)	2021	2020
Operating lease cost	$ 342	$ 269
	$ 342	$ 269

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

	As of December 31,	
(In thousands)	2021	2020
2022	$ 367	$ 278
2023	90	-
2024	92	-
2025	93	-
2026	6	-
Thereafter	-	-
Total lease payments	648	278
Less imputed interest	(54)	(25)
Total	$ 594	$ 253

Note 13. Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit to meet the financing needs of its customers. Such commitments have been made in the normal course of business and at current prevailing market terms. The commitments, once funded, are principally to originate commercial loans and other loans secured by real estate. The

Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments issued to potential borrowers of the Bank as of December 31, 2021 and 2020 were as follows:

	As of December 31,	
(In thousands)	2021	2020
Fixed rate commitments	$ 4,864	$ 3,585
Variable/adjustable rate commitments	111,698	73,184
Total commitments	$ 116,562	$ 76,769

Legal Proceedings

Within the normal course of business, the Company may be a party to various claims or legal proceedings. Management is not aware of any litigation that would have a material adverse effect on the consolidated financial statements. There are no proceedings pending other than routine litigation incident to the business of the Company.

Note 14. Related-Party Transactions

Directors and executive officers of the Company, including their immediate families and companies in which they have a direct or indirect material interest, are considered to be related parties. In the ordinary course of business, the Company engages in various related party transactions, including extending credit and deposit accounts. Federal banking regulations require that any extensions of credit to insiders and their related interests not be offered on terms more favorable than would be offered to non-related borrowers of similar creditworthiness. The Company relies on the directors and executive officers for the identification of their associates.

The aggregate amount of loans to related parties was $664 thousand and $920 thousand as of December 31, 2021 and 2020, respectively. During 2021 and 2020, new loans and credit line advances to such related parties amounted to $0 and $125 thousand, respectively, and repayments amounted to $6 thousand and $22 thousand, respectively. Approximately $250 thousand is no longer classified as related party due to a change in composition of related parties. The aggregate amount of deposits from related parties was $60.9 million and $61.8 million as of December 31, 2021 and 2020, respectively.

The Bank engaged in certain property inspection and construction services with an entity that is affiliated with a director of the Bank. Such aggregate services amounted to fees of $20 thousand and $33 thousand for the years ended December 31, 2021 and 2020, respectively. In management's opinion, the terms of the services provided were substantially equivalent to that which would have been obtained from unaffiliated parties.

Note 15. Employee Benefits

The Bank instituted a qualified defined contribution plan ('the 401(K) Plan") for all current employees in August 2005. All eligible employees are 100% vested in any required safe harbor contributions. The Bank made safe harbor contributions in the amount of $253 thousand and $188 thousand during 2021 and 2020, respectively.

Note 16. Share-Based Compensation

During 2020, the shareholders approved the 1st Colonial Bancorp, Inc. 2020 Equity Incentive Plan ("2020 Equity Plan"). The Board of Directors approved the 2020 Equity Plan for the purpose of enabling the Company to continue to recruit and retain highly qualified personnel, to provide those personnel with an incentive for productivity, and to provide those personnel with an opportunity to share in the growth and value of the Company. Accordingly, the board of directors has reserved 400,000 shares of our common stock for issuance upon the grant or exercise of awards pursuant to the 2020 Equity Plan. The Board of Directors believes that the shares authorized by the 2020 Equity Plan are needed to ensure the continued availability of equity-based compensation and that the 2020 Equity Plan will enhance the effectiveness of the Bank's equity compensation program by authorizing the award of restricted stock and the use of other stock-based compensation techniques. The exercise price of options granted under this program is required to be equal to at least the fair market value of common stock as of the grant date. The 2020 Equity Plan allows for the Compensation Committee of the Board of Directors to determine the type of incentive to be awarded, its term, vesting and restrictions on shares. As of December 31, 2021, 272,016 options and restricted stock units were outstanding under this plan.

Compensation expense for equity grants is recognized over the requisite service period. During 2021 and 2020, we recognized $122 thousand and $63 thousand, respectively, in compensation expense for equity grants. As of December 31, 2021, approximately $928 thousand remained to be recognized in compensation expense over a weighted-average period of approximately four and half years.

The authorization of the 2020 Equity Plan terminated two other stock option programs, the 2013 Outside Director Plan and the 2013 Employee Stock Option Plan. No new options or awards will be granted under the 2013 Plans. Under the 2013 Outside Director Plan, 124,907 options remain outstanding as of December 31, 2021 for nonemployee directors. The exercise price of options granted under this program was required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest in five equal annual installments or upon retirement. These options expire 10 years from the grant date.

Under the 2013 Employee Stock Option Plan, 57,901 options remain outstanding as of December 31, 2021 for key employees. The exercise price of options granted under this program was equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest in five equal annual installments, upon retirement or a change in control of the Company. These options expire 10 years from the grant date.

We had two other stock option programs, the 2003 Outside Director Plan and the 2003 Employee Stock Option Plan. The ability to grant new options under these plans has expired.

Under the 2003 Outside Director Plan, as amended, 7,784 options remain outstanding as of December 31, 2021 for nonemployee directors. The exercise price of options granted under this program was required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan are fully vested. These options expire 10 years from the grant date. Under the 2003 Employee Stock Option Plan, as amended, no options remain outstanding as of December 31, 2021 for key employees.

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option-pricing model. The risk-free interest rate for the expected term of the stock option awarded is based on the U.S. Treasury yield curve in effect at the time of the grant. The volatility of the Company's stock is based on a combination of historical volatility and peer data over a span of time equal to the expected life of stock option awards, which is the period of time the Company estimates that stock options granted will remain outstanding. The simplified method averages an award's weighted average vesting period and its contractual term. The following assumptions were used to estimate the fair value of the options granted during 2021 and 2020:

	2021	2020
Weighted average risk-free interest rate	0.83%	0.38%
Weighted average volatility	24.68%	24.00%
Expected dividend yield	-	-
Weighted average expected life (years)	6.50	6.50

A summary status of the Company's stock option plans as of December 31, 2021 and 2020, and the changes during the years then ended, is as follows:

	2021				2020	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (yrs)	(1) Aggregate Intrinsic Value	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	332,041	$ 7.05	6.0		326,710	$ 6.81
Granted	124,500	9.68			101,000	6.99
Exercised	(20,468)	4.54			(26,084)	4.29
Forfeited or expired	(28,481)	6.05			(69,585)	6.86
Options outstanding at the end of the year	407,592	$ 7.77	5.6	$ 798	332,041	$ 7.05
Options exercisable at the end of the year	195,422	$ 6.44	2.4	$ 605	212,239	$ 5.97
Weighted-average fair value of options granted during the year		$ 2.59				$ 1.75

(1) The aggregate intrinsic value of a stock option in the table above (shown in thousands) represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2021. The intrinsic value varies based on the changes in the market value in the Company's stock.

The Company issues new shares upon the exercise of stock options.

The following table provides detail for non-vested stock options under the 2020 Equity Plan and the 2013 Outside Director and Employee Stock Option Plans as of December 31, 2021:

	Options	Weighted Average Exercise Price
Non-vested options December 31, 2020	119,802	$ 7.37
Granted	124,500	9.68
Forfeited	(7,960)	7.17
Vested	(24,172)	8.24
Non-vested options December 31, 2021	212,170	$ 8.63

The following table summarizes the activity for the Company's restricted stock unit awards as of December 31, 2021:

	Options	Weighted Average Fair Value
Outstanding at beginning of year	-	$ -
Granted	55,016	9.31
Forfeited	-	-
Vested	-	-
Outstanding at end of year	55,016	$ 9.31

Note 17. Shareholders' Equity and Regulatory Capital

Shareholders' Equity

On January 25, 2021, the Company announced that it had adopted a stock repurchase program, effective February 1, 2021. Under the stock repurchase program, management was authorized to repurchase up to 3% of the Company's outstanding shares of common stock, with a total cost not to exceed $1.4 million. This repurchase program was completed in May 2021 with a total of 141,720 shares repurchased for a cost of $1.4 million.

On November 10, 2021, the Company announced that it had adopted a new stock repurchase program, effective November 22, 2021. Under the new stock repurchase program, management is authorized to repurchase up to 4% of the Company's outstanding shares of common stock, with a total cost not to exceed $2.0 million. During 2021, the combined total of shares repurchased under the two programs was 256,220 shares for a total cost of $2.5 million, or an average cost of $9.79 per share.

Dividend Policy

Company

The Company has not paid a cash dividend since its inception in June 2000. Any payment of cash dividends to its shareholders would be dependent on the payment of a cash dividend from the Bank to the Company. The payment of cash dividends by the Bank to the Company is limited under federal banking law. The Company's future dividend policy is subject to the discretion of its board of directors and will depend upon a number of factors, including future earnings, financial conditions, cash needs, and general business conditions. Holders of common stock will be entitled to receive dividends as and when declared by the board of directors out of funds legally available for that purpose.

Bank

The amount of dividends that may be paid by the Bank depends upon the Bank's earnings and capital position, and is limited by New Jersey and federal law, regulations, and policies. As a state-chartered bank subject to New Jersey and FDIC regulations, the Bank cannot pay any dividend if the dividend would reduce the required surplus of the Bank as defined in New Jersey statutes. As a matter of policy, the FDIC expects state banks to follow the national bank dividend limits, which allow a bank to pay dividends up to the amount of net profits of the current year plus the retained net profits from the last two years. Amounts in excess of that would require prior approval of the FDIC. In addition, the FDIC and the state of New Jersey have authority to further limit any dividends to be paid by the Bank in a specific case. No specific dividend restrictions have been imposed on the Bank at this time.

Common Stock Dividends

Historically, the Company declared stock dividends annually. As a result of the stock repurchase program, the Company did not declare a stock dividend in 2021. On January 29, 2020, the Company declared a 5% stock dividend to all shareholders of record as of April 1, 2020 payable on April 15, 2020.

Regulatory Capital

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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

A banking organization must hold a capital conservation buffer comprised of Common Equity Tier 1 above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. As of December 31, 2021, the Bank met all capital adequacy requirements to which it is subject and met the criteria for a well-capitalized institution. At yearend 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 capital amounts and ratios as of December 31, 2021 and 2020 are presented in the following table:

	Actual		For capital adequacy purposes		For capital adequacy purposes with capital conservation buffer		To be well capitalized under prompt corrective action provision	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio*	Amount	Ratio*	Amount	Ratio
Total risk-based capital								
As of December 31, 2021	$ 70,954	15.365%	$ 36,943	8.00%	$ 48,488	10.500%	$ 46,179	10.00%
As of December 31, 2020	$ 66,191	17.538%	$ 30,193	8.00%	$ 39,628	10.500%	$ 37,741	10.00%
Tier 1 risk-based capital								
As of December 31, 2021	$ 65,168	14.112%	$ 27,707	6.00%	$ 39,252	8.500%	$ 36,943	8.00%
As of December 31, 2020	$ 61,462	16.285%	$ 22,645	6.00%	$ 32,080	8.500%	$ 30,193	8.00%
Tier 1 leverage capital								
As of December 31, 2021	$ 65,168	9.216%	$ 28,284	4.00%	$ 28,284	4.000%	$ 35,356	5.00%
As of December 31, 2020	$ 61,462	9.601%	$ 25,607	4.00%	$ 25,607	4.000%	$ 32,009	5.00%
Tier 1 common equity risk-based capital								
As of December 31, 2021	$ 65,168	14.112%	$ 20,780	4.50%	$ 32,325	7.000%	$ 30,016	6.50%
As of December 31, 2020	$ 61,462	16.285%	$ 16,984	4.50%	$ 26,419	7.000%	$ 24,532	6.50%

Note 18. Parent Company Financial Information

A summary of the statements of financial condition as of December 31, 2021 and 2020 is as follows:

(In thousands)	As of December 31, 2021	As of December 31, 2020
Assets		
Cash in subsidiary	$ 2,768	$ 1,599
Investment in subsidiary	65,440	62,568
Deferred tax asset	113	109
Other assets	201	85
Total assets	$ 68,522	$ 64,361
Liabilities and Shareholders' Equity		
Subordinated debt, net of issuance costs	$ 10,440	$ 10,404
Accrued interest payable	251	263
Other liabilities	14	8
Shareholders' equity	57,817	53,686
Total liabilities and shareholders' equity	$ 68,522	$ 64,361

A summary of the statements of operations for the years ended December 31, 2021 and 2020 is as follows:

(In thousands)	2021	2020
Equity income from subsidiary	$ 3,706	$ 5,210
Dividend income	4,400	-
Total income	8,106	5,210
Other expenses:		
Interest on subordinated debt	786	276
Other operating expenses	182	110
Total other expenses	968	386
Income before income tax expense (benefit)	7,138	4,824
Income tax (benefit) expense	(120)	69
Net income	$ 7,258	$ 4,755

Notes to Consolidated Financial Statements

A summary of the statements of cash flows for the years ended December 31, 2021 and 2020 is as follows:

(In thousands)	2021	2020
Cash flows from operating activities:		
Net income	$ 7,258	$ 4,755
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in income from subsidiary	(3,706)	(5,210)
Stock-based compensation expense	122	63
(Increase) decrease deferred income tax benefit	(4)	29
Amortization of issuance costs on long-term debt	36	12
(Increase) decrease in other assets	(117)	44
(Decrease) increase in other liabilities	(5)	267
Total adjustments	(3,674)	(4,795)
Net cash provided by (used in) operating activities	3,584	(40)
Cash flows from investing activities:		
Investment in subsidiary	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities:		
Cost of processing stock dividend	-	(2)
Proceeds from long term borrowings	-	10,392
Increase in investment in subsidiary	-	(9,000)
Acquisition of treasury stock	(2,508)	-
Proceeds from sale of stock	93	116
Net cash (used in) provided by financing activities	(2,415)	1,506
Net increase in cash and cash equivalents	1,169	1,466
Cash and cash equivalents at beginning of year	1,599	133
Cash and cash equivalents at end of year	$ 2,768	$ 1,599
Cash paid during the year for:		
Interest	$ 3,063	$ 3,991
Income taxes paid	3,957	1,368

1st Colonial Bancorp, Inc.

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Stock Listing

1st Colonial's Common Stock is traded under the Symbol "FCOB"

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Thomas R. Brugger
Curt Byerley
Thomas A. Clark, III, Esquire
John J. Donnelly, IV
Michael C. Haydinger
Harvey Johnson, Esquire
Harrison Melstein
Stanley H. Molotsky
Shelley Y. Simms

Letitia G. Colombi, Director Emeritus

Executive Officers

Robert B. White, President and Chief Executive Officer
Frank J. Monaghan, Executive Vice President and Chief Operating Officer
Mary Kay Shea, Executive Vice President and Chief Financial Officer

Senior Management 1st Colonial Community Bank

Gino Brown, SVP Residential Mortgage Lending
Michael Cosden, SVP Senior Credit Officer
Anthony W. LaMarca, EVP Chief Commercial Lending Officer
Matthew McGonigal, SVP Director of Digital Experience and Operations
Randolph D. Wolfe, SVP Chief Revenue Officer

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