2022
Annual Report

1st Colonial Bancorp, Inc.

1st Colonial Bancorp, Inc.

April 5, 2023

Dear Fellow Shareholders,

We hope this letter finds you well. We are pleased to report another successful year for our company. We generated record earnings of $8.5 million for the full year, which represents an increase of 17% over 2021 results. This equates to $1.77 per share on a fully diluted basis.

Although we faced many challenges during the year, including stubbornly high inflation, increased operating costs, and general economic uncertainty, our Team continued to stay focused on each other, as well as our loyal customer base.

The Federal Reserve raised the Fed Funds Rate aggressively during the year, which had a positive impact on our net interest income for the year. We continue to stay very focused on our interest expense, as well as our overall asset and liability management and practices.

We realized a 15% increase in total assets during the year, mostly driven by an increase in our loans outstanding. Our efficiency ratio improved to 60.3% from 62.5% at year end 2021. Our deposits increased by 10% during the year, and our liquidity position remains strong with ample cash and borrowing capacity to support our uninsured deposits, should we see any unexpected deposit outflow. Our balance sheet and overall financial condition remains strong, and we are well capitalized to support our continued growth plan.

Asset quality metrics continue to be stable, with no deterioration being detected. The increased costs associated with inflation and higher interest rates will certainly have an impact on our clients' disposable income levels and cash flow. We closely monitor our portfolio for signs of stress and we are ready and able to support all of our clients, should they experience hardship.

Our investment in technology will continue into 2023, providing for greater efficiency and a better overall experience for our Team Members and our customers. We launched our new online account opening tool, providing the delivery of our products through a fully digital distribution channel. We believe this will allow us to diversify and grow our customer base, as we appeal to a wider range of clients that prefer to do their banking digitally, with the flexibility of in person banking if needed.

Lastly, we completed the move to our new corporate office in Mount Laurel. The new space is modern and spacious, and will allow for the ability to grow over time, while not causing any unnecessary strain on our overhead expenses.

We anticipate 2023 will be filled with new challenges and opportunities, which we are ready to face and ultimately continue to overcome.

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, 2022 and 2021

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of 1st Colonial Bancorp, Inc. and Subsidiary, which comprise the consolidated statements of financial condition December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 1st Colonial Bancorp, Inc. and Subsidiary as of December 31, 2022 and 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.

Responsibilities of Management for the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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 30, 2023

Consolidated Statements of Financial Condition

(Dollars in thousands, except share data)	As of December 31, 2022	2021
Assets		
Cash and due from banks	$ 20,377	$ 40,853
Federal funds sold	22	24
Total cash and cash equivalents	20,399	40,877
Investments held to maturity (fair value of $38,114 as of December 31, 2022 and $18,476 as of December 31, 2021)	38,114	18,476
Investments available for sale ("AFS") (amortized cost of $99,160 as of December 31, 2022 and $92,957 as of December 31, 2021)	91,017	93,331
Investment in restricted bank stock, at cost	2,894	1,474
Loans held for sale	6,710	9,957
Loans	603,609	501,883
Less allowance for loan losses	(8,331)	(6,906)
Net loans	595,278	494,977
Premises and equipment, net	1,845	1,072
Accrued interest receivable	2,779	1,664
Deferred tax assets	3,825	1,555
Bank-owned life insurance	14,548	16,160
Other assets	4,554	3,291
Total assets	$ 781,963	$ 682,834
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	$ 671,052	$ 610,476
Subordinated debt, net of issuance costs	10,559	10,440
Other borrowings	34,788	-
Accrued interest payable	405	303
Other liabilities	5,521	3,798
Total liabilities	722,325	625,017
Shareholders' equity:		
Preferred stock. Authorized 1,000,000 shares, no shares issued	-	-
Common stock, $0 par value. Authorized 10,000,000 shares; issued 5,148,221 and 5,120,331 shares as of December 31, 2022 and December 31, 2021, respectively, and outstanding of 4,675,244 and 4,726,235 shares as of December 31, 2022 and December 31, 2021, respectively	-	-
Additional paid-in capital	38,619	38,250
Retained earnings	31,149	22,651
Accumulated other comprehensive (loss) income	(5,890)	272
Treasury stock at cost, 472,977 and 394,096 shares as of December 31, 2022 and December 31, 2021, respectively	(4,240)	(3,356)
Total shareholders' equity	59,638	57,817
Total liabilities and shareholders' equity	$ 781,963	$ 682,834

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations
For the years ended December 31,

(Dollars in thousands, except share data)	2022	2021
Interest income:		
Loans	$ 27,674	$ 23,331
Federal funds sold and interest-bearing deposits	142	47
Investments:		
Taxable	1,679	1,282
Nontaxable	378	275
Total interest income	29,873	24,935
Interest expense:		
Deposits	2,692	2,248
Subordinated debt	872	786
Other borrowings	300	3
Total interest expense	3,864	3,037
Net interest income	26,009	21,898
Provision for loan losses	1,150	1,715
Net interest income after provision for loan losses	24,859	20,183
Other income:		
Gain on sales of mortgage loans held for sale	2,126	4,878
Gain on sale of guaranteed portion of SBA loans	852	2,276
Mortgage fee income	595	965
Bank-owned life insurance income	1,440	802
Gain on sale of securities	-	110
Service charges on deposit accounts	99	92
Gain (loss) on real estate owned	37	(55)
Other income and fees	419	422
Total other income	5,568	9,490
Other expenses:		
Compensation and employee benefits	12,437	12,422
Data processing expense	1,731	1,606
Occupancy and equipment expenses	1,231	1,245
Professional services	602	758
FDIC and state assessments	369	290
Loan expenses	596	1,139
Other operating expenses	2,068	2,159
Total other expenses	19,034	19,619
Income before income tax expense	11,393	10,054
Income tax expense	2,895	2,796
Net income	$ 8,498	$ 7,258
Earnings per share:		
Basic earnings per share	$ 1.82	$ 1.49
Diluted earnings per share	$ 1.77	$ 1.47
Weighted average number of shares outstanding:		
Basic earnings per share	4,681,122	4,861,992
Diluted earnings per share	4,791,574	4,953,191

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the years ended December 31,					
	2022			2021		
(In thousands)	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount
Net income	$ 11,393	$ 2,895	$ 8,498	$ 10,054	$ 2,796	$ 7,258
Other comprehensive (loss) income:						
Net unrealized loss on AFS investment securities:						
Net unrealized holding loss arising during the period	(8,517)	(2,355)	(6,162)	(1,085)	(331)	(754)
Less reclassification adjustment for net gains on sales realized in net income	-	-	-	110	30	80
Total net unrealized loss on AFS investment securities	(8,517)	(2,355)	(6,162)	(1,195)	(361)	(834)
Other comprehensive loss	(8,517)	(2,355)	(6,162)	(1,195)	(361)	(834)
Total comprehensive income	$ 2,876	$ 540	$ 2,336	$ 8,859	$ 2,435	$ 6,424

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2022 and 2021

(In thousands)	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance as of Janaury 1, 2021	$ 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 loss 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
Stock issued	104				104
Stock issuance expenses	-				-
Purchase of treasury stock (78,881 shares)				(884)	(884)
Net unrealized loss on securities available for sale, net of tax			(6,162)		(6,162)
Stock-based compensation	265				265
Net income		8,498			8,498
Balance as of December 31, 2022	$ 38,619	$ 31,149	$ (5,890)	$ (4,240)	$ 59,638

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

(In thousands)	2022	2021
Cash flows from operating activities:		
Net income	$ 8,498	$ 7,258
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	323	351
Net amortization of premium on investment securities	184	571
Net accretion of deferred fees and costs on loans	(1,278)	(2,936)
Amortization of issuance costs on long-term debt	119	36
Stock-based compensation expense	265	122
Gain on sale of investment securities	-	(110)
Gain on sales of mortgage loans held for sale	(2,126)	(4,878)
Gain on sales of guaranteed portion of SBA loans	(852)	(2,276)
Provision for loan losses	1,150	1,715
Cash disbursed for mortgage banking activities	(89,549)	(184,595)
Cash received for mortgage banking activities	94,940	201,375
Net (gains) losses on sales of OREO	(37)	55
Net loss on disposals of premises and equipment	68	63
Increase in cash value of bank-owned life insurance, net	(1,440)	(802)
Decrease (increase) in deferred income tax benefit	66	(25)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(1,115)	147
Increase in other assets	(1,262)	(911)
Increase (decrease) in accrued interest payable	102	(26)
Increase in other liabilities	1,723	306
Total adjustments	1,281	8,182
Net cash provided by operating activities	9,779	15,440
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
Proceeds from principal repayment of AFS investment securities	10,469	18,585
Proceeds from maturities of securities held to maturity	16,498	54,716
Purchases of securities available for sale	(16,856)	(35,810)
Purchases of securities held to maturity	(36,136)	(18,037)
Redemption of restricted bank stock	(1,420)	265
Proceeds from sale of real estate owned	76	132
Increase in loans receivable, net	(99,360)	(74,144)
Capital expenditures	(1,164)	(717)
Proceeds from bank owned life insurance policies	3,052	1,381
Purchase of life insurance policies	-	(2,000)
Net cash used in investing activities	(124,841)	(51,519)

Consolidated Statements of Cash Flows - Continued
For the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from financing activities:		
Net increase in deposits	60,576	44,656
Net increase (decrease) in short-term borrowings	34,788	(2,325)
Acquisition of treasury stock	(884)	(2,508)
Proceeds from exercise of stock options	104	93
Net cash provided by financing activities	94,584	39,916
Net (decrease) increase in cash and cash equivalents	(20,478)	3,837
Cash and cash equivalents at beginning of year	40,877	37,040
Cash and cash equivalents at end of year	$ 20,399	$ 40,877
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ 3,726	$ 3,063
Income taxes paid	2,782	3,957
Noncash items:		
Net change in unrealized gain on securities available for sale, net of tax benefit of $2,355 for 2022 and $361 for 2021	$ (6,162)	$ (834)
Transfer to real estate owned	39	187
Lease liabilities for obtaining right of use assets	1,745	344

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 Mount Laurel, 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 its 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 30, 2023, 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.

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 39%, 11% and 5%, 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, 2022 and 2021, respectively.

Mortgage Loans Held for Sale

We originate and sell residential mortgage loans with servicing released to the secondary market. This activity enables us to fulfill the credit needs of the community while reducing its overall exposure to interest rate and credit risk. These loans are reported at 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, 2022 and 2021.

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 2022, we received $3.1 million in insurance proceeds related to three former employees covered by BOLI policies and recorded $1.0 million in income from these proceeds. During 2021, we received $1.4 million in insurance proceeds related to one former employee and recorded $385 thousand in income from these proceeds. Income from the insurance proceeds 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, net of treasury stock, during the period. Dilutive earnings per share include dilutive common stock equivalents as computed under the treasury stock method using average common stock prices.

Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate lock commitments) to be sold in the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as freestanding derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to hedge the change in interest rates resulting from its commitment to fund the loans, we enter into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into. We utilize a third-party model to determine the fair value of rate lock commitments or forward sale contracts. This model uses investor bids and the probability that the rate lock commitments will close. Net derivative assets and liabilities are recorded within other assets or other liabilities, respectively, on the consolidated balance sheets, with changes in fair value during the period recorded within net change in the fair value of derivative instruments on the consolidated statements of income.

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, 2022, tax years 2019 through 2021 are subject to federal examination by the IRS and years 2018 through 2021 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, 2022 and 2021. 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).

As part of our implementation efforts, we have engaged a third-party vendor, reconciled historical loan, charge-off and recovery data and determined segmentation of the loan portfolio for application of the current expected credit losses calculation. We have also designed calculation methodologies under the new guidance and have engaged an external vendor to perform model validation. We are currently designing appropriate controls and management review prior to the adoption of the standard. We believe that expected credit losses under ASU 2016-13 will generally result in earlier loss recognition on our loan portfolio.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. ASU 2022-02 made certain targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. Upon adoption, we will be required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs. The ASU also requires companies to disclose current period gross write-offs by year of origination for financing receivables and net investment in leases within scope of Subtopic 326-20. ASU 2022-02 is effective March 31, 2023, for entities that have adopted ASU 2016-13, otherwise the effective date is the same as ASU 2016-13. We plan to adopt ASU 2016-13 January 1, 2023 and will simultaneously implement ASU 2022-02.

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, 2022 and 2021.

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, 2022 and 2021 is as follows:

As of December 31, 2022

(In thousands)	Amortized Cost	HTM unrecognized/ AFS unrealized Gross gains	HTM unrecognized/ AFS unrealized Gross losses	Fair value
Investments HTM:				
Municipal securities	$ 37,614	$ -	$ -	$ 37,614
Corporate bonds	500	-	-	500
Total	$ 38,114	$ -	$ -	$ 38,114
Investments AFS:				
U.S. Treasuries	$ 14,956	$ -	$ (224)	$ 14,732
U.S. government securities	30,490	-	(2,889)	27,601
Agency mortgage-backed securities	42,272	1	(4,270)	38,003
Corporate bonds	11,442	-	(761)	10,681
Total	$ 99,160	$ 1	$ (8,144)	$ 91,017

As of December 31, 2021

(In thousands)	Amortized Cost	HTM unrecognized/ AFS unrealized Gross gains	HTM unrecognized/ AFS unrealized 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
Agency mortgage-backed securities	53,009	650	(233)	53,426
Corporate bonds	9,468	278	-	9,746
Total	$ 92,957	$ 932	$ (558)	$ 93,331

The scheduled maturities of investment securities held to maturity and securities available for sale as of December 31, 2022 are as follows:

	HTM Investments		AFS Investmemts	
(In thousands)	Amortized Cost	Fair value	Amortized Cost	Fair value
Due in one year or less	$ 36,601	$ 36,601	$ 14,949	$ 14,680
Due after one year up to five years	1,013	1,013	30,497	27,654
Due after five years up to ten years	500	500	10,470	9,861
Due after ten years	-	-	972	819
Subtotal	38,114	38,114	56,888	53,014
Agency mortgage-backed securities	-	-	42,272	38,003
Total	$ 38,114	$ 38,114	$ 99,160	$ 91,017

Proceeds from sales and maturities of securities available for sale totaled $0 and $1.1 million during 2022 and 2021, respectively. Gross gains realized from the sale of securities were $0 and $110 thousand in 2022 and 2021, respectively. There were no realized losses in 2022 and 2021.

As of December 31, 2022 and 2021, investment securities with a market value of $74.9 million and $65.0 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, 2022 and 2021 are as follows:

As of December 31, 2022

	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. Treasuries	$ 14,732	$ (224)	3	$ -	$ -	-	$ 14,732	$ (224)	3
U.S. government securities	4,807	(183)	1	22,794	(2,706)	6	27,601	(2,889)	7
Agency mortgage-backed securities	12,140	(578)	46	25,553	(3,692)	9	37,693	(4,270)	55
Corporate bonds	8,681	(761)	10	-	-		8,681	(761)	10
Total	$ 40,360	$ (1,746)	60	$ 48,347	$ (6,398)	15	$ 88,707	$ (8,144)	75

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	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Investments AFS:									
U.S. government securities	$ 21,270	$ (230)	5	$ 3,905	$ (95)	1	$ 25,175	$ (325)	6
Agency 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

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, 2022 and 2021:

(In thousands)	December 31, 2022	December 31, 2021
Commercial real estate	$ 233,319	$ 201,838
Construction and land development	64,970	51,809
Commercial	32,474	43,497
Residential real estate	271,913	203,485
Consumer	933	1,254
	603,609	501,883
Less allowance for loan losses	(8,331)	(6,906)
	$ 595,278	$ 494,977

The Bank is subject to a loans-to-one-borrower limitation of 15% of capital funds. As of December 31, 2022, the loans-to-one-borrower limitation was $11.1 million compared to $9.7 million as of December 31, 2021. As of December 31, 2022 and 2021, 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, 2022 and 2021, mortgage loans totaled $570.2 million and $457.1 million, respectively. Mortgage loans represent 94.5% and 91.1% of total gross loans as of December 31, 2022 and 2021, 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, 2022, 100% of our PPP loans have been forgiven by the SBA and the outstanding balance was $0. During 2022, we recognized in interest income $548 thousand of net deferred SBA PPP fees compared to $2.4 million for 2021. As of December 31, 2021, PPP loans outstanding were $14.0 million.

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, 2022 and December 31, 2021.

December 31, 2022

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Nonaccrual	Total
Commercial real estate	$ 231,243	$ 592	$ -	$ -	$ 1,484	$ 233,319
Construction and land development	61,227	2,176	-	-	1,567	64,970
Commercial	31,633	109	-	-	732	32,474
Total	$ 324,103	$ 2,877	$ -	$ -	$ 3,783	$ 330,763

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

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

December 31, 2022 (In thousands)	Performing	Nonaccrual	Total
Residential real estate	$ 271,131	$ 782	$ 271,913
Consumer	933	-	933
Total	$ 272,064	$ 782	$ 272,846

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

The following tables present an aging analysis of past due payments for each loan portfolio classification as of December 31, 2022 and December 31, 2021.

December 31, 2022 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ 290	$ 2,394	$ -	$ 1,484	$ 229,151	$ 233,319
Construction and land development	-	-	-	1,567	63,403	64,970
Commercial	150	261	-	732	31,331	32,474
Residential real estate	196	-	-	782	270,935	271,913
Consumer	-	-	-	-	933	933
Total loans, net of unearned income	$ 636	$ 2,655	$ -	$ 4,565	$ 595,753	$ 603,609

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

The Bank had 15 non-accrual loans as of December 31, 2022 in the amount of $4.6 million compared to 11 non-accrual loans in the amount of $3.5 million as of December 31, 2021. During 2022 we transferred $2.5 million to non-accrual, recorded $1.2 million in principal payments, transferred $39 thousand to OREO and charged-off $166 thousand. All of the non-accrual loans were impaired. If interest had accrued on these loans, such income would have been approximately $307 thousand and $281 thousand for the years ended December 31, 2022 and 2021, respectively. The specific reserves associated with the non-accrual loans were $1.2 million and $640 thousand as of December 31, 2022 and 2021, respectively.

Troubled Debt Restructuring

The following table details our TDRs that are on an accrual status and non-accrual status as of December 31, 2022 and December 31, 2021.

(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
	As of December 31, 2022			
Commercial real estate	2	$ 2,394	$ 606	$ 3,000
Commercial	1	-	632	632
Residential real estate	1	277	-	277
Total	4	$ 2,671	$ 1,238	$ 3,909

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

The following tables present the new TDRs that occurred during the years ended December 31, 2022 and 2021.

(In thousands)	Number of loans	Rate	Term	Payment	Combination of types	Total	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	Modifications by type for the year ended December 31, 2022							
Commercial real estate	1	$ -	$ -	$ 2,659	$ -	$ 2,659	$ 2,659	$ 2,659
Total	1	$ -	$ -	$ 2,659	$ -	$ 2,659	$ 2,659	$ 2,659

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

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, 2022 and 2021:

December 31, 2022 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 2,808	$ 825	$ 1,387	$ 1,870	$ 16	$ 6,906
Charge-offs	(88)	(78)	(18)	(20)	(8)	(212)
Recoveries	177	1	154	142	13	487
Provision (credit)	506	209	(154)	602	(13)	1,150
Ending balance	$ 3,403	$ 957	$ 1,369	$ 2,594	$ 8	$ 8,331
Ending balance: related to loans individually evaluated for impairment	$ 452	$ -	$ 732	$ 21	$ -	$ 1,205
Ending balance: related to loans collectively evaluated for impairment	$ 2,951	$ 957	$ 637	$ 2,573	$ 8	$ 7,126
Loan Balances						
Ending balance	$ 233,319	$ 64,970	$ 32,474	$ 271,913	$ 933	$ 603,609
Ending balance: individually evaluated for impairment	$ 1,484	$ 1,567	$ 732	$ 1,059	$ -	$ 4,842
Ending balance: collectively evaluated for impairment	$ 231,835	$ 63,403	$ 31,742	$ 270,854	$ 933	$ 598,767

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

The following tables details the impaired loans by loan classification as of December 31, 2022 and December 31, 2021.

(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
	As of and for the year ended December 31, 2022					
With no related allowance recorded:						
Commercial real estate	$ 1,004	$ 656	$ -	$ 792	$ 53	$ 129
Construction	2,097	1,567	-	1,687	-	11
Commercial	-	-	-	106	-	14
Residential real estate	1,062	990	-	769	13	56
Total:	$ 4,163	$ 3,213	$ -	$ 3,354	$ 66	$ 210
With an allowance recorded:						
Commercial real estate	$ 828	$ 828	$ 452	$ 64	$ -	$ -
Construction and land development	-	-	-	6	-	-
Commercial	1,550	732	732	642	-	-
Residential real estate	69	69	21	5	-	-
Total:	$ 2,447	$ 1,629	$ 1,205	$ 717	$ -	$ -

(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
	As of and for the year ended December 31, 2021					
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	$ -	$ -

Note 6. Premises and Equipment, Net

Premises and equipment as of December 31, 2022 and 2021 are summarized as follows (dollars in thousands):

(In thousands)	Estimated Useful Lives	As of December 31, 2022	As of December 31, 2021
Land		$ 122	$ 122
Buildings and leasehold improvements	5 - 35 years	1,104	1,215
Furniture, fixtures and equipment	3 - 10 years	2,134	1,990
Premises and equipment, gross		3,360	3,327
Less accumulated depreciation and amortization		(1,515)	(2,255)
Premises and equipment, net		$ 1,845	$ 1,072

Depreciation expense was $323 thousand and $351 thousand for the years ended December 31, 2022 and 2021, respectively, and is recorded in occupancy and equipment expenses.

Note 7. Deposits

Deposits consist of the following major classifications as of December 31, 2022 and 2021:

(Dollars in thousand)	As of December 31, 2022	As of December 31, 2021
Non-interest checking	$ 85,716	$ 92,924
Interest checking	332,032	256,490
Money market deposits	49,952	42,791
Savings deposits	68,987	90,971
Certificates of deposit ($250 and over)	25,518	40,352
Certificates of deposit (less than $250)	61,397	86,290
Brokered deposits	47,450	658
Total deposits	$ 671,052	$ 610,476

The Bank has a concentration of deposits from local municipalities. Municipal deposits, which are mostly interest-checking accounts, were $298.7 million or 44.5% of total deposits as of December 31, 2022, and $233.7 million or 38.3% of total deposits as of December 31, 2021. Municipal deposit accounts in excess of $250 thousand are collateralized by investment securities with a market value of $74.9 million as of December 31, 2022 and a $165.0 million FHLB Municipal Letter of Credit.

Interest expense on deposits consisted of the following for the years ended December 31, 2022 and 2021:

(In thousands)	2022	2021
Interest checking	$ 781	$ 432
Money market deposits	244	89
Savings deposits	314	251
Certificates of deposit	1,353	1,476
Total interest expense on deposits	$ 2,692	$ 2,248

The following is a schedule of certificates of deposit, which includes the brokered deposits, by maturities as of December 31, 2022:

(In thousands)	As of December 31, 2022
2023	$ 110,990
2024	16,428
2025	3,056
2026	3,314
2027	577
Total certificates of deposits	$ 134,365

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, 2022, we had $165.0 million in short-term municipal letters of credit outstanding and $33.5 million in additional borrowing capacity. The FHLB line of credit is secured with residential and commercial mortgage loans totaling $240.2 million. As of December 31, 2021, we had $120.0 million in municipal letters of credit outstanding and $66.7 million in additional borrowing capacity. The borrowing potential was 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, 2022, $33.0 million, with an interest rate of 4.61%, was outstanding against the FHLB line of credit compared to $0 as of December 31, 2021. The average balance of FHLB advances was $9.4 million and $27 thousand for 2022 and 2021, respectively, with average rates paid of 3.09% and 0.35% for the respective periods.

Federal Reserve Bank

As of December 31, 2022, we had $114.1 million in borrowing capacity at the FRB. The FRB line of credit is secured with commercial, construction and residential and commercial mortgage loans totaling $170.7 million. 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. As of December 31, 2022 and 2021, the Bank had no outstanding advances against the FRB line of credit. The average balance of FRB advances was $125 thousand and $0 for 2022 and 2021, respectively. For 2022 the average rate paid was 4.50%.

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 $10.6 million as of December 31, 2022 and $10.4 million as of December 31, 2021.

Other Lines of Credit

As of December 31, 2022 and 2021, the Bank had an unsecured line of credit with Atlantic Community Bankers Bank ("ACBB") in the aggregate amount of $8.0 million. As of December 31, 2022, $1.8 million, with an interest rate of 4.75% was outstanding against the ACBB line of credit compared to $0 as of December 31, 2021. The average balance of the ACBB line was $146 thousand and $24 thousand for 2022 and 2021, respectively, with average rates paid of 1.48% and 0.41% for the respective periods..

As of December 31, 2022 and 2021, 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, 2022 and 2021, there were no outstanding balances against 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, 2022 and 2021:

(In thousands, except for per share data)	Net Income	Average shares	Per share Amount
2022:			
Basic earnings per share	$ 8,498	4,681,122	$ 1.82
Effect of dilutive stock equivalents	-	110,452	(0.05)
Diluted earnings per share	$ 8,498	4,791,574	$ 1.77
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

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 2022, the Company granted a total of 32,500 restricted stock unit awards, which are considered CSEs. Options to purchase 373,132 and 407,592 shares of common stock were outstanding as of December 31, 2022 and 2021, respectively. Options to purchase 49,790 and 174,290 shares were antidilutive for 2022 and 2021, respectively, and excluded from the earnings per share calculations.

Note 10. Derivative and Hedging Activity

Commitments to fund certain fixed rate mortgage loans (interest rate lock commitments) to be sold in the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. During 2022 we began the practice of entering into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitments to fund the loans. Interest rate lock commitments and forward sales commitments are recorded within other assets and/or other liabilities on the consolidated balance sheets, with changes in fair values recorded within gains on sale of mortgage loans on the consolidated statements of operations.

The following table reflects the amount and fair value of mortgage banking derivatives included in the Consolidated Balance Sheet as of December 31, 2022.

	December 31, 2022	
(In thousands)	Amount	Value
Included in other assets		
Interest Rate Lock Commitments	$ 2,351	$ 54
Forward commitments	2,250	10
Total included in other assets	$ 4,601	$ 64

Note 11. 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, 2022 and 2021.

Items Measured on a Recurring Basis

Fair value for Level 1 securities is determined by obtaining quoted market prices in active markets. U.S. Treasuries are classified as Level 1.

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 corporate bonds. Additionally, the fair value of our forward commitments is based on market pricing and is classified as Level 2.

Level 3 includes our interest rate lock commitments. The determination of fair value of includes assumptions, that are significant and unobservable, about the probability that the loans behind the rate lock commitments will close.

Items Measured on a Nonrecurring Basis

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, 2022 and December 31, 2021 are as follows:

As of December 31, 2022 (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. Treasuries	$ 14,732	$ -	$ -	$ 14,732
U.S. government agencies	-	27,601	-	27,601
Agency mortgage-backed securities	-	38,003	-	38,003
Corporate bonds	-	10,681	-	10,681
Total investments AFS	14,732	76,285	-	91,017
Mortgage loans held for sale		6,710		6,710
Interest rate lock commitments	-	-	54	54
Forward commitments	-	10	-	10
Total assets measured at fair value on a recurring basis	$ -	$ 6,720	$ 54	$ 6,774
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 4,842	$ 4,842
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 4,842	$ 4,842

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
Agency mortgage-backed securities	-	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
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 3,809	$ 3,809

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, 2022 and December 31, 2021:

As of December 31, 2022 (Dollars in thousands)	Qualitative Information about Level 3 Fair Value Measurements				
	Fair Value	Valuation Techniques	Unobservable Input	Range of Inputs	Weighted Average
Impaired loans	$ 4,842	Appraisal of collateral	Liquidation expenses	0%-12.9% discount	6.82%

As of December 31, 2021 (Dollars in thousands)	Qualitative Information about Level 3 Fair Value Measurements				
	Fair Value	Valuation Techniques	Unobservable Input	Range of Inputs	Weighted Average
Impaired loans	$ 3,809	Appraisal of collateral	Liquidation expenses	0%-13.1% discount	6.81%

The estimated fair value of the Company's financial instruments as of December 31, 2022 and 2021 was as follows:

(In thousands)	Carrying value	Estimated fair value	Fair Value Measurements As of December 31, 2022 — 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	$ 20,399	$ 20,399	$ 20,399	$ -	$ -
Investments held to maturity	38,114	38,114	-	37,614	500
Investments available for sale	91,017	91,017	-	91,017	-
Restricted bank stock, at cost	2,894	NA	-	-	NA
Mortgage loans held for sale	6,710	6,710	-	6,710	-
Loans receivable, net	595,278	548,529	-	-	548,529
Interest rate lock commitments	54	54	-	-	54
Forward commitments	10	10		10	-
Accrued interest receivable	2,779	2,779	-	-	2,779
Financial liabilities:					
Demand deposits	417,748	417,748	-	417,748	-
Money market deposits	49,952	49,952	-	49,952	-
Savings deposits	68,987	68,987	-	68,987	-
Certificates of deposit	134,365	134,881	-	134,881	-
Subordinated debt, net	10,559	9,733		9,733	-
Other borrowings	34,788	34,792	-	34,792	-
Accrued interest payable	405	405	-	405	-

			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	-	17,976	500
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	
Accrued interest payable	303	303	-	303	-

Note 12. Income Taxes

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

	For the years ended December 31.	
(In thousands)	2022	2021
Income tax expense (benefit)		
Federal		
Current	$ 1,731	$ 1,777
Deferred	57	(103)
	1,788	1,674
State		
Current	1,098	1,044
Deferred	9	78
	1,107	1,122
Total income tax expense	$ 2,895	$ 2,796

The following is a reconciliation between expected tax expense at the statutory rate of 21% for 2022 and 2021 and actual tax expense:

(In thousands)	For the years ended December 31, 2022	2021
Computed tax expense at statutory rate	$ 2,393	$ 2,112
Adjustments resulting from:		
State tax, net of federal benefit	875	899
Tax-exempt interest income	(97)	(77)
Bank owned life insurance	(303)	(168)
Stock-based compensation	(3)	5
Other	30	25
Income tax expense	$ 2,895	$ 2,796

Significant deferred tax assets and liabilities of the Bank as of December 31, 2022 and 2021 are as follows:

(In thousands)	As of December 31, 2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 2,304	$ 1,911
Security write-downs	-	-
OREO write-downs	-	-
Deferred rent	11	18
Unrealized losses on AFS debt securities	2,234	-
Share-based compensation cost	134	113
PPP loan origination fees	-	173
Unfunded loan commitments	157	169
Non-accrual interest	9	13
Other	11	15
Deferred tax assets	4,860	2,412
Deferred tax liabilities:		
Depreciation	(459)	(164)
Unrealized gains on AFS debt securities	-	(102)
Prepaid expenses	(31)	(16)
Deferred loan costs	(545)	(575)
Total deferred tax liabilities	(1,035)	(857)
Net deferred tax asset, included in other assets	$ 3,825	$ 1,555

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, 2022.

As of December 31, 2022 and 2021, 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, 2022, the years 2019 – 2021 are open for federal examination and years 2018-2021 are open for state examinations.

Note 13. 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 represents 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. During 2022 we executed a new lease for the main office and relocated to Mount Laurel, New Jersey in November. The new lease is for 92 months. Additionally, we extended the Collingswood location's lease for another five years. The Company's leases have remaining lease terms of one month to 7.5 years, some of which include options to extend the leases for up to five years. 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, 2022 and 2021.

	For the years ended December 31,	
(In thousands)	2022	2021
ROU asset	$ 1,971	$ 558
Lease liability	$ 2,011	$ 617

The following table presents operating lease costs for the years ended December 31, 2022 and 2021.

	For the years ended December 31,	
(In thousands)	2022	2021
Operating lease cost	$ 323	$ 342
	$ 323	$ 342

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

(In thousands)	As of December 31, 2022	2021
2023	$ 308	$ 367
2024	361	90
2025	432	92
2026	354	93
2027	347	6
Thereafter	655	-
Total lease payments	2,457	648
Less imputed interest	(438)	(54)
Total	$ 2,019	$ 594

Note 14. 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, 2022 and 2021 were as follows:

(In thousands)	As of December 31, 2022	2021
Fixed rate commitments	$ 4,291	$ 4,864
Variable/adjustable rate commitments	133,994	111,698
Total commitments	$ 138,285	$ 116,562

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 15. 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 $1.0 million and $664 thousand as of December 31, 2022 and 2021, respectively. During 2022 and 2021, new loans and credit line advances to such related parties amounted to $355 thousand and $0, respectively, and repayments amounted to $13 thousand and $6 thousand, respectively. The aggregate amount of deposits from related parties was $51.1 million and $60.9 million as of December 31, 2022 and 2021, 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 for the years ended December 31, 2022 and 2021, 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 16. 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 $289 thousand and $253 thousand during 2022 and 2021, respectively.

Note 17. 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, 2022, 277,786 options and restricted stock units were outstanding under this plan.

Compensation expense for equity grants is recognized over the requisite service period. During 2022 and 2021, we recognized $265 thousand and $122 thousand, respectively, in compensation expense for equity grants. As of December 31, 2022, approximately $1.0 million remained to be recognized in compensation expense over a weighted-average period of approximately four 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, 117,785 options remain outstanding as of December 31, 2022 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, 55,347 options remain outstanding as of December 31, 2022 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.

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. There were no stock option awards granted in 2022. The following assumptions were used to estimate the fair value of the options granted during 2021:

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

A summary status of the Company's stock option plans as of December 31, 2022 and 2021, and the changes during the years then ended, is as follows:

	2022				2021	
	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	407,592	$ 7.58	6.0		332,041	$ 7.05
Granted	-	-			124,500	9.68
Exercised	(18,160)	5.77			(20,468)	4.54
Forfeited or expired	(16,300)	9.33			(28,481)	6.05
Options outstanding at the end of the year	373,132	$ 7.60	5.7	$ 2,390	407,592	$ 7.58
Options exercisable at the end of the year	220,432	$ 7.01	4.0	$ 1,541	195,422	$ 6.44

(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, 2022. 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, 2022:

	Options	Weighted Average Exercise Price
Non-vested options December 31, 2021	212,170	$ 8.63
Granted	-	-
Forfeited	(15,600)	9.31
Vested	(43,870)	9.07
Non-vested options December 31, 2022	152,700	$ 8.44

The following table summarizes the activity for the Company's restricted stock unit awards as of December 31, 2022:

	Restricted stock units	Weighted Average Fair Value
Outstanding as of December 31, 2021	55,016	$ 9.31
Granted	32,500	12.32
Forfeited	-	-
Vested	(9,730)	9.26
Outstanding as of December 31, 2022	77,786	$ 10.58

Note 18. Shareholders' Equity and Regulatory Capital

Shareholders' Equity

During 2021, the Company announced and adopted two separate stock repurchase programs. The first repurchase program was completed in May 2021 with a total of 141,720 shares repurchased for a cost of $1.4 million or an average cost of $9.88 per share. The second repurchase program was completed in May 2022 with a total of 193,381 shares repurchased for a cost of $2.0 million, or an average cost of $10.30 per share. Under the second repurchase program 114,500 shares were purchased in 2021 and 78,881 shares were repurchased in 2022.

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.

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 2022 and 2021, 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, 2022 and 2021 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, 2022	$ 82,086	14.141%	$ 46,439	8.00%	$ 60,951	10.500%	$ 58,049	10.00%
As of December 31, 2021	$ 70,954	15.365%	$ 36,943	8.00%	$ 48,488	10.500%	$ 46,179	10.00%
Tier 1 risk-based capital								
As of December 31, 2022	$ 74,817	12.889%	$ 34,829	6.00%	$ 49,342	8.500%	$ 46,439	8.00%
As of December 31, 2021	$ 65,168	14.112%	$ 27,707	6.00%	$ 39,252	8.500%	$ 36,943	8.00%
Tier 1 leverage capital								
As of December 31, 2022	$ 74,817	9.742%	$ 30,718	4.00%	$ 30,718	4.000%	$ 38,398	5.00%
As of December 31, 2021	$ 65,168	9.216%	$ 28,284	4.00%	$ 28,284	4.000%	$ 35,356	5.00%
Tier 1 common equity risk-based capital								
As of December 31, 2022	$ 74,817	12.889%	$ 26,122	4.50%	$ 40,634	7.000%	$ 37,732	6.50%
As of December 31, 2021	$ 65,168	14.112%	$ 20,780	4.50%	$ 32,325	7.000%	$ 30,016	6.50%

Note 19. Parent Company Financial Information

A summary of the statements of financial condition as of December 31, 2022 and 2021 is as follows:

	As of December 31,	
(In thousands)	2022	2021
Assets		
Cash in subsidiary	$ 1,148	$ 2,768
Investment in subsidiary	68,927	65,440
Deferred tax asset	135	113
Other assets	257	201
Total assets	$ 70,467	$ 68,522
Liabilities and Shareholders' Equity		
Subordinated debt, net of issuance costs	$ 10,559	$ 10,440
Accrued interest payable	251	251
Other liabilities	19	14
Shareholders' equity	59,638	57,817
Total liabilities and shareholders' equity	$ 70,467	$ 68,522

A summary of the statements of operations for the years ended December 31, 2022 and 2021 is as follows:

(In thousands)	2022	2021
Equity income from subsidiary	$ 9,649	$ 3,706
Dividend income	-	4,400
Total income	9,649	8,106
Other expenses:		
Interest on subordinated debt	872	786
Other operating expenses	350	182
Total other expenses	1,222	968
Income before income tax expense (benefit)	8,427	7,138
Income tax (benefit) expense	(71)	(120)
Net income	$ 8,498	$ 7,258

A summary of the statements of cash flows for the years ended December 31, 2022 and 2021 is as follows:

(In thousands)	2022	2021
Cash flows from operating activities:		
Net income	$ 8,498	$ 7,258
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in income from subsidiary	(9,649)	(3,706)
Stock-based compensation expense	265	122
(Increase) decrease deferred income tax benefit	(21)	(4)
Amortization of issuance costs on long-term debt	120	36
(Increase) decrease in other assets	(56)	(117)
(Decrease) increase in other liabilities	3	(5)
Total adjustments	(9,338)	(3,674)
Net cash used in operating activities	(840)	3,584
Cash flows from investing activities:		
Investment in subsidiary	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities:		
Acquisition of treasury stock	(884)	(2,508)
Proceeds from sale of stock	104	93
Net cash provided by financing activities	(780)	(2,415)
Net increase in cash and cash equivalents	(1,620)	1,169
Cash and cash equivalents at beginning of year	2,768	1,599
Cash and cash equivalents at end of year	$ 1,148	$ 2,768
Cash paid during the year for:		
Interest	$ 3,726	$ 3,063
Income taxes paid	2,782	3,957
Supplemental disclosures:		
Net change in unrealized gains on securities available for sale, net tax benefit of $2,355 for 2022 and $361 for 2021	$ (6,162)	$ (834)

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

Board of Directors

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

Executive Officers

Robert B. White, President and Chief Executive Officer
Anthony W. LaMarca, Executive Vice President and Chief
Mary Kay Shea, Executive Vice President and Chief Financial Officer

Senior Management 1st Colonial Community Bank

Gino Brown, SVP Residential Mortgage Lending
Matthew McGonigal, SVP Director of Digital Experience and Operations
Randolph D. Wolfe, SVP Chief Revenue Officer

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