First Commerce Bank

First Commerce Bank

Annual Report 2022

First Commerce Bank

First Commerce Bank

Consolidated Financial Statements

December 31, 2022 and 2021

First Commerce Bank

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Independent Auditor's Report

Board of Directors
First Commerce Bank of New Jersey
Lakewood, New Jersey

Opinion

We have audited the consolidated financial statements of First Commerce Bank (the Bank), which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 the Bank's ability to continue as a going concern for a reasonable period of time.

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

BDO USA, LLP

Philadelphia, Pennsylvania
March 17, 2023

First Commerce Bank

Consolidated Statements of Financial Condition

(dollars in thousands, except per share amounts)

December 31,	2022	2021
Assets		
Cash and cash equivalents:		
Cash on hand	$ 1,686	$ 1,736
Interest-bearing deposits in other financial institutions	40,899	111,602
Total cash and cash equivalents	42,585	113,338
Investment securities held-to-maturity, fair value $60,917 and $24,622, respectively	65,788	23,611
Investment securities available-for-sale	13,902	22,617
Restricted stock	3,699	945
Loans receivable, net of allowance for loan losses of $17,781 and $17,733 respectively	1,100,300	909,312
Premises and equipment, net	15,725	16,385
Bank owned life insurance	25,781	25,115
Right-of-use asset	9,913	9,368
Other real estate owned	3,971	4,345
Deferred tax asset	4,437	3,805
Accrued interest receivable	4,638	4,432
Other assets	1,388	1,162
Total Assets	$ 1,292,127	$ 1,134,435
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 202,155	$ 212,016
Interest bearing	824,520	729,910
Total deposits	1,026,675	941,926
Borrowings	59,000	-
Accrued interest payable	993	100
Lease liability	10,453	9,791
Other liabilities	14,615	10,318
Total Liabilities	1,111,736	962,135
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Preferred stock; authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, par value $2.00 per share; authorized 30,000,000 shares; 23,785,490 and 23,316,490 shares issued and outstanding, respectively	47,570	46,632
Additional paid-in capital	41,023	40,213
Retained earnings	92,107	84,790
Accumulated other comprehensive (loss) income	(309)	665
Total Stockholders' Equity	180,391	172,300
Total Liabilities and Stockholders' Equity	$ 1,292,127	$ 1,134,435

See accompanying notes to consolidated financial statements.

First Commerce Bank

First Commerce Bank

Consolidated Statements of Income

(dollars in thousands, except per share amounts)

Years Ended December 31,		2022		2021
Interest Income				
Loans, including fees	$	50,089	$	44,442
Investment securities - held-to-maturity		1,586		812
Investment securities - available-for-sale		573		743
Interest-bearing deposits held in other financial institutions		719		220
Total Interest Income		52,967		46,217
Interest Expense				
Deposits		5,969		3,643
Borrowings		630		-
Total Interest Expense		6,599		3,643
Net interest income		46,368		42,574
Credit for Loan Losses		(358)		(586)
Net Interest Income After Credit for Loan Losses		46,726		43,160
Non-interest Income				
Service charges and fees on customer accounts		718		772
Earnings on bank owned life insurance		666		115
Other income		57		49
Total Non-interest Income		1,441		936
Non-interest Expenses				
Salaries and employee benefits		16,020		13,359
Occupancy and equipment expense		3,391		3,163
Marketing		212		114
Professional fees		1,651		1,478
Data processing		869		731
FDIC assessment		531		264
Loss on valuation and sales of other real estate owned		165		114
Other expense		3,459		2,446
Total Non-interest Expenses		26,298		21,669
Income before income taxes		21,869		22,427
Income tax expense		5,275		5,742
Net Income	$	16,594	$	16,685
Net Income per common share	$	0.70	$	0.72
Net Income per common share - diluted	$	0.69	$	0.71
Weighted average common shares		23,597		23,098
Weighted average common shares - diluted		23,987		23,596

See accompanying notes to consolidated financial statements.

First Commerce Bank

Consolidated Statements of Comprehensive Income

(dollars in thousands)

Year Ended December 31, 2022	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Net Income	$ 21,869	$ (5,275)	$ 16,594
Other Comprehensive Income			
Unrealized loss on available-for-sale securities	(1,331)	357	(974)
Total Comprehensive Income	$ 20,538	$ (4,918)	$ 15,620
Year Ended December 31, 2021			
Net Income	$ 22,427	$ (5,742)	$ 16,685
Other Comprehensive Income			
Unrealized loss on available-for-sale securities	(716)	192	(524)
Total Comprehensive Income	$ 21,711	$ (5,550)	$ 16,161

See accompanying notes to consolidated financial statements.

First Commerce Bank

Consolidated Statements of Changes in Stockholders' Equity

(dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2021	$ 45,601	$ 39,345	$ 68,105	$ 1,189	$ 154,240
Net income	-	-	16,685	-	16,685
Other comprehensive loss	-	-	-	(524)	(524)
Stock options exercised (515,600 shares)	1,031	677	-	-	1,708
Stock compensation expense	-	191	-	-	191
Balance, December 31, 2021	46,632	40,213	84,790	665	172,300
Net income	-	-	16,594	-	16,594
Other comprehensive loss	-	-	-	(974)	(974)
Dividends Paid	-	-	(9,277)	-	(9,277)
Stock options exercised (469,000 shares)	938	644	-	-	1,582
Stock compensation expense	-	166	-	-	166
Balance, December 31, 2022	$ 47,570	$ 41,023	$ 92,107	$ (309)	$ 180,391

See accompanying notes to consolidated financial statements.

First Commerce Bank

Consolidated Statements of Cash Flows

(dollars in thousands)

Years Ended December 31,	2022	2021
Cash Flows from Operating Activities		
Net income	$ 16,594	$ 16,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,180	1,154
Net (accretion) amortization of securities discounts	(44)	48
Credit for loan losses	(358)	(586)
Deferred income tax expense	(275)	(70)
Earnings on bank owned life insurance	(666)	(115)
Stock compensation expense	166	191
Loss on valuation and sales of other real estate owned	165	114
(Increase) decrease in accrued interest receivable and other assets	(47)	862
Increase in accrued interest payable and other liabilities	4,922	3,049
Net Cash Provided by Operating Activities	21,637	21,332
Cash Flows from Investing Activities		
Net increase in loans	(190,630)	(68,306)
Proceeds from sales of other real estate owned	209	987
Purchase of held-to-maturity securities	(54,061)	(2,899)
Maturities, calls and paydowns of securities available-for-sale	7,374	7,473
Maturities, calls and paydowns of securities held-to-maturity	11,938	9,902
Purchase of restricted stock	(2,754)	(2)
Purchase of bank owned life insurance	-	(25,000)
Purchase of premises and equipment	(520)	(178)
Net Cash Used in Investing Activities	(228,444)	(78,023)
Cash Flows from Financing Activities		
Net increase in deposits	84,749	72,043
Dividends paid	(9,277)	-
FHLB advances	59,000	-
Proceeds from exercise of stock options	1,582	1,708
Net Cash Provided by Financing Activities	136,054	73,751
Net (decrease) increase in cash and cash equivalents	(70,753)	17,060
Cash and Cash Equivalents, Beginning	113,338	96,278
Cash and Cash Equivalents, Ending	$ 42,585	$ 113,338
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 5,707	$ 3,594
Taxes	5,815	5,119
Supplementary Schedule of non-cash activities:		
Transfer of loans to other real estate owned	$ -	$ 144
Right-of-use asset	(930)	-
Lease liability	930	-

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Businesses: First Commerce Bank (the "Bank") is a New Jersey State chartered commercial bank headquartered in Lakewood, New Jersey, and its deposits are insured by the Federal Deposit Insurance Corporation. The Bank conducts a general commercial banking business, principally in the State of New Jersey and provides full-service banking to individuals and businesses, which includes checking, savings, money market and time deposit accounts, as well as commercial loans, commercial mortgages, construction loans, residential and consumer loans.

The Bank is subject to the regulations of the FDIC and the NJ Department of Banking and Insurance and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation and Accounting Estimates: The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries, First Commerce Real Estate Holdings, LLC, FCB Investments, LLC, FC Delaware Investment Company, Inc. and its wholly owned subsidiary, FC Preferred Capital, Inc. All intercompany accounts and transactions have been eliminated in consolidation. The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements and the reported amounts of revenue and expenses for the reporting period. Significant estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, other-than-temporary impairments of securities and fair value disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Bank considers cash on hand, amounts due from banks, interest-bearing deposits held in other institutions, federal funds sold and highly liquid debt instruments purchased with original maturities of three months or less to be cash and cash equivalents. Cash flows from short-term loans, deposits and federal funds are reported net in the statements of cash flows.

Investment Securities: Management determines the appropriate classification of investment securities at the time of purchase. As of December 31, 2022 and 2021, the Bank's investment portfolio contained available-for-sale and held-to-maturity investment securities.

Investment securities that are classified as available-for-sale are stated at fair value. Unrealized gains and losses on investment securities available-for-sale are excluded from results of operations and are reported as other comprehensive income or loss, a separate component of stockholders' equity, net of taxes. Investment securities classified as available-for-sale include investment securities that may be sold in response to changes in interest rates, changes in prepayment risks or for asset/liability management purposes.

Investment securities which the Bank has the intent and ability to hold until maturity are classified as held-to-maturity and are recorded at cost, adjusted for amortization of premiums and accretion of discounts.

The cost of investment securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization or accretion recorded as adjustments to interest and dividends are included in interest income from investments. Realized gains and losses are included in gains (losses) on sales of investment securities in the consolidated statements of income. Gains and losses on the sale of securities are recorded on the trade date and are determined based on the specific-identification method.

Management periodically evaluates the investment securities for other-than-temporary impairment when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which fair value has been less than cost; (2) the financial condition and near term prospects of the issuer; (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value; and (4) whether it is not more likely than not that the Bank will be required to sell the investment before recovery of its amortized cost basis, which may be maturity. Factors affecting the determination of whether the other-than-temporary impairment has occurred include a downgrading of the security by a rating agency and a significant deterioration in the financial condition of the issuer. In instances when a determination is made that the other-than-temporary impairment exists but the Bank does not intend to sell the debt security or it is more likely than not that it will not be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment 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 other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income or loss.

Restricted Stock: The Bank holds investments in the common stocks of Atlantic Community Bankers Bank (“ACBB”) and Federal Home Loan Bank of New York (“FHLBNY”). These investments in restricted stock are carried at cost. The stocks have no quoted market value and are subject to redemption restrictions. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. Management considers such criteria as the significance of the decline in net assets, if any, the length of time the situation has persisted, commitments by the institution to make payments required by law or regulation, the impact of legislative and regulatory changes on the customer base of the institution and the liquidity position of the institution.

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

The Bank's loan portfolio is segmented as follows:

- Construction and land development
- Commercial loans and commercial real estate
- Residential 1-4 family real estate
- Residential multi-family real estate
- Home equity and second mortgages
- Consumer

Generally, loans are considered past due when contractual payments are delinquent for 30 days or greater. Loans will generally be placed on non-accrual when the loan has become 90 days past due (unless the loan is well secured and in the process of being collected), or if any of the following conditions exist:

- It becomes evident that the borrower will not make payments, or will not or cannot meet the terms for renewals of a matured loan,
- When full repayment of principal and interest is not expected,
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or
- When foreclosure action is initiated.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method until qualifying for return to accrual. In all cases, loans are placed on non-accrual and some portion or all of the loan is charged-off at an earlier date if collection of principal or interest is considered doubtful.

Non-accrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Prospects for future principal and interest payments are not in doubt, generally demonstrated by performance in accordance with the contracted terms for a reasonable period of time, generally six months.

The Bank accounts for interest on impaired loans in a similar fashion.

Allowance for Loan Losses: The allowance for loan losses is maintained at the level considered adequate by management to provide for losses that are probable and estimable. The allowance for loan losses is established through provisions for loan losses charged against earnings. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

Management's determination of the adequacy of the allowance is based on an evaluation of individual loans, past loan loss experience, current economic conditions, balance and composition of the loan portfolio and other relevant factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

When establishing the allowance for loan losses, management categorizes loans into homogenous categories generally based on the nature of the collateral and the basis of repayment. Substantially, all such loans are secured and backed by the personal guarantee of the owner or the borrower. The relevant risk characteristics of each loan segment are as follows:

Construction and Land Development: Construction and land development loans consist of vacant land and property that is in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs. Construction real estate loans generally have terms commensurate with the size of the project during the construction period and floating interest rates based on a designated index and spread.

Commercial and Commercial Real Estate: Commercial loans are for commercial, corporate and business purposes, including issuing letters of credit. The Bank’s commercial business loan portfolio is comprised of loans for a variety of purposes and generally is secured by accounts receivable, inventory, equipment, machinery and other business assets. Generally commercial business loans have terms of five years or less and fixed interest rates. Presently, many commercial loans have an interest rate floor established. These loans are underwritten after evaluating historical and projected profitability and cash flow to determine the Borrower’s ability to repay their obligations as agreed. Primarily, commercial loans are made on the identified cash flow of the Borrower and secondarily on the underlying collateral supporting the loan facility. Accordingly, the repayment of a Commercial loan depends primarily on the creditworthiness of the Borrower (and any Guarantors), while liquidation of collateral is a secondary source of payment.

Commercial real estate loans are primarily secured by apartment buildings, office and industrial buildings, retail centers and warehouses and various special purpose properties. Generally, although terms vary, non-farm non-residential loans have amortizations no greater than thirty (30) years and at times, have balloon payments. The interest rates thereon may be adjusted at some frequency, based on a designated index and spread. These loans are subject to the underwriting standards and processes similar to Commercial loans, in addition to those underwriting standards for real estate loans. Primarily these loans are viewed as cash flow dependent and secondarily as loans secured by real estate. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan or the principal business conducted on the property securing the loan. In addition, the underwriting considers the amount of the principal advanced relative to the property value. Commercial real estate loans may be adversely affected by conditions in the real estate market, or the economy in general. Management monitors and evaluates commercial real estate loans based upon cash flow estimates, collateral and risk-rating criteria. The Bank also utilizes third party experts to provide environmental and market valuations. Substantial effort is required to underwrite, monitor and evaluate commercial real estate loans.

Residential 1-4 Family Real Estate, Home Equity and Second Mortgages: Residential 1-4 family real estate, home equity and second mortgages loans are generally smaller in size and are homogenous because they exhibit similar characteristics. These loans are secured by non-farm property containing one-to-four family dwelling units which include individual condominium dwelling units secured by an interest in the individual housing unit. First mortgages and home equity loans are originated at a loan to value ratio of 80% or less, while home equity lines are originated at a loan to value ratio of 75% or less. Home equity loans have additional risks as a result of typically being in a second lien position or lower in the event collateral is liquidated.

Residential Multi-Family Real Estate: Residential multi-family real estate loans generally involve a greater degree of credit risk than residential 1-4 family real estate loans due to the reliance on the successful operation of the project. This loan type is sensitive to adverse economic conditions and carries similar underwriting standards and risks to Commercial Real Estate.

Consumer: The risk involved in consumer loans is predicated on the type and nature of the collateral and, in certain cases, the absence of collateral. Consumer loans include secured and unsecured loans that have been made for a variety of consumer purposes.

The allowance for loan losses consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a regular and case-by-case basis, taking into consideration circumstances surrounding the loan and the borrower, including the length of the delays, 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 loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-off experience. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical losses.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt and comply with various terms of their loan agreements. The Bank considers current financial information, historical payment experience, credit documentation, public information and current economic trends. A financial review is conducted in accordance with the Bank's loan review policy. Credits classified other than Pass generally receive a review more frequently than annually. For Substandard, and Doubtful credit classifications, the frequency of review is increased to several times a year by the Special Assets Department of the Bank in order to determine potential impact on credit loss estimates.

The Bank categorizes construction and land development, commercial and commercial real estate loans into the following risk categories based on relevant information about the ability of borrowers to service their debt:

Pass: A Pass asset is well protected by the current worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral. Pass assets also include certain assets considered "watch", which are still protected by the worth and paying capacity of the borrower but deserve closer attention and a higher level of credit monitoring.

Special Mention: A Special Mention asset has potential weaknesses that deserve management's close attention. The asset may also be subject to a weak or speculative market or to economic conditions, which may, in the future adversely affect the obligor. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: A Substandard asset is an asset with a well-defined weakness that jeopardizes repayment, in whole or in part, of the debt. These credits are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These assets are characterized by the distinct possibility that the institution will sustain some loss of principal and/or interest if the deficiencies are not corrected. It is not necessary for a loan to have an identifiable loss potential in order to receive this rating.

Doubtful: An asset that has all the weaknesses inherent in the Substandard classification, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely likely, but it is not identified at this point due to additional pending factors.

Loss: An asset or portion thereof, classified as Loss, is considered uncollectable and of such little value that its continuance on the Bank's books as an asset is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value; but rather, there is much doubt about whether, how much, if or when the recovery would occur. As such, it is not practical or desirable to defer the write-off.

On an internal and external basis, an independent loan review is completed on a sample of construction and land development, commercial and commercial real estate loans. The reviews are completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews determine whether any documentation exemptions exist, appropriate written analysis is included in the file, and whether credit policies have been properly adhered to. Substantially all of such loans are secured and backed by the personal guarantees of the owners of the business.

For residential 1-4 family real estate, residential multi-family real estate, home equity and second mortgages and consumer loans, management uses performing versus non-performing as the best indicator of credit quality. Non-performing loans consist of loans that are not accruing interest (non-accrual loans) as a result of principal and interest being in default for a period of 90 days or more or when the ability to collect principal and interest according to the contractual terms is in doubt. These credit quality indicators are updated on an on-going basis, as a loan is placed on non-accrual status as soon as management believes there is sufficient doubt as to the ultimate ability to collect interest on the loan.

Troubled Debt Restructuring (TDR): Troubled debt restructuring exists when the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law or agreement between the borrower and the Bank) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates, reduction of stated interest rates or accrued interest, and significant delays in payments. The Bank attempts to maximize its recovery of the balances of the loans through these various concessionary restructurings. All troubled debt restructurings are classified as impaired loans and are subject to the same allowance methodology as described previously for impaired loans. Troubled debt restructurings are placed on accrual or non-accrual status based on management's assessment of collectability and the borrowers exhibiting the ability to meet the payment terms of the modification.

U.S. Small Business Association (SBA) Lending Activities: The Bank originates loans to customers in its primary market areas under various SBA programs that generally provide for SBA guarantees of between 50 percent and 100 percent of each loan. The Bank's practice has been to inventory the guaranteed portion of its SBA loans; however, sales to a third party could be contemplated in the future with the Bank retaining the servicing while holding the non-guaranteed portion in its portfolio. When the guaranteed portion of an SBA loan is sold, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income.

Concentration of Credit Risk: A major portion of the Bank's loans are secured by real estate located in New Jersey, primarily in Bergen, Mercer, Monmouth and Ocean Counties. Accordingly, as with most financial institutions in the market area, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in market conditions in these areas. The Bank has implemented a Concentration Policy with oversight from the internal loan review department to track credit that may cause a concentration with quarterly reporting to the Board of Directors.

Other Real Estate Owned ("OREO"): Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. The difference between the fair value and the cost basis of the loan is recorded as either a charge against the allowance for loan losses or a gain on foreclosure of the asset. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of its carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in OREO expenses. As of December 31, 2022 and 2021, the Bank had $3,971 net of a valuation allowance of $1,050 and $4,345 net of a valuation allowance of $819 held in OREO, respectively. There are no residential properties either in foreclosure or in the process of foreclosure at year-end 2022.

(dollars in thousands)

The following summarizes the roll forward of OREO for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning Balance	$ 4,345	$ 5,446
Transfers from loans	-	144
Proceeds from sales	(209)	(1,131)
(Gain) loss on sales	65	(114)
Valuation Allowance	(230)	-
Ending Balance	$ 3,971	$ 4,345

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the useful lives for equipment and the lesser of the term of the lease or the estimated useful life for leasehold improvements. Depreciation expense is recorded in occupancy and equipment expense on the income statement. Estimated useful lives for financial reporting purposes range from 3 to 40 years. Repairs and maintenance expenditures are charged to operations as incurred, while major improvements are capitalized.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when all of the components meet the definition of a participating interest and when control over the assets has been surrendered. A participating interest generally represents (1) a proportionate (pro rata) ownership interest in an entire financial asset; (2) a relationship where from the date of transfer all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership; (3) the priority of cash flows has certain characteristics, including no reduction in priority, subordination of interest or recourse to the transferor other than standard representation or warranties; and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes: Income tax accounting results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the asset and liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax asset will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized if it is “more likely than not”, based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment. There are no uncertain tax positions as of December 31, 2022.

Interest and penalties associated with unrecognized tax benefits would be recognized in income tax expense in the consolidated statements of income.

<u>Comprehensive Income (Loss)</u>: Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income or loss. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, net of the related tax effect, are reported as a separate component of the equity section of the consolidated statements of financial condition, such items, along with net income or loss, are components of comprehensive income (loss).

<u>Stock-Based Compensation</u>: The Bank estimates the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as compensation expense in the Bank’s statements of income over the requisite service periods. Compensation expense for all share-based awards is recognized using the straight-line method.

Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense may be reduced to account for estimated forfeitures. The Bank estimates forfeitures at the time of grant and revises them, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

<u>Leases</u>: Leases are recognized as assets and liabilities on the balance sheet for all leases with a term greater than 12 months. The Bank has elected to not recognize assets and liabilities for leases with a term less than 12 months. For all operating leases, the Bank recognizes a liability to make lease payments and a “right-of-use” asset.

(dollars in thousands)

For operating leases wherein, the Bank is the lessee, the Bank has elected the practical expedient to not separate lease and non-lease components.

Operating leases, in which the Bank is the lessee, are recorded as Right-of-Use ("ROU") Assets and Lease Liabilities on our Consolidated Statements of Financial Condition. We do not currently have any finance leases in which the Bank is the lessee. Operating lease ROU assets represent our right to use an underlying asset during the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized as lease commencement based on the present value of the remaining lease payments using a discount rate that represents our Incremental Borrowing Rate ("IBR"). The IBR was calculated for each lease determining the rate for a fully collateralized, fully amortizing loan of the same term as the lease. The IBR for each lease is unique based on the lease term. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in Occupancy and equipment expense, in the Consolidated Statements of Income. For the years ended December 31, 2022 and 2021, operating lease expense amounted to $783 and $760 respectively.

Net Income per Common Share: Basic net income per common share was computed by dividing net income by the number of weighted average shares of common stock outstanding. Diluted net income per common share was computed by dividing net income by the number of weighted average shares of common stock outstanding adjusted for outstanding stock options, which are considered common stock equivalents, to the extent dilutive, using the treasury stock method. During the years ended December 31, 2022 and 2021 there were 0 and 22,000 options that were anti-dilutive, respectively.

December 31,	2022	2021
Net Income	$ 16,594	$ 16,685
Weighted average common shares outstanding	23,597	23,098
Effect of diluted stock options	390	498
Weighted average common shares used to calculated diluted earnings per share	23,987	23,596
Basic earnings per common share	$ 0.70	$ 0.72
Diluted earnings per common share	$ 0.69	$ 0.71

Bank Owned Life Insurance

BOLI is carried at the aggregate cash surrender value of life insurance policies owned where the Bank is named beneficiary. Increases in cash surrender value derived from crediting rates for underlying insurance policies is credited to noninterest income.

Subsequent Events:

The Bank has evaluated subsequent events from the date of the financial statements of December 31, 2022 through the date these financial statements were issued. No events or transactions were identified that could have an impact on the financial condition or results of operations of the Bank as of December 31, 2022 as reported herein.

Accounting Standards not yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU sets forth the CECL model which requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the ASU amends accounting for certain available-for-sale debt securities, purchased financial assets with credit deterioration, and some off-balance sheet credit exposures.

For the Bank, the provisions of this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

The expected impact to the consolidated financial statements is specifically related to the level of the reserve for credit losses. The Bank has contracted with a third-party vendor and calculations of expected losses under the new guidance have been run parallel to the calculations under existing guidance to assess potential impact to the Bank's financial statements. Upon adoption, the expected impact of the adjustment will range from $100 reduction to $100 addition to the allowance for loan losses.

In June 2019, the FASB issued ASU 2019-05, Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief. This ASU provides optional targeted transition relief that allows reporting entities to irrevocably elect the fair value option on financial instruments that 1) were previously recorded at amortized cost and 2) are within the scope of Topic 326 if the instruments are eligible for the fair value option under Topic 825. The new guidance is effective for public companies for annual reporting periods and interim periods within those annual periods beginning after December 15, 2019. See the discussion regarding the adoption of ASU 2016-13 above.

In November 2019, the FASB issued ASU No. 2019-10, "Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). ASU 2019-10 provides that the FASB's recently developed philosophy regarding the implementation of effective dates applies to ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), among other ASUs. For the Bank, the provisions of this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for all entities as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. See the discussion regarding the adoption of ASU 2016-13 above.

Also in November 2019, the FASB issued ASU No. 2019-11, "Financial Instruments - Credit Losses: Codification improvements (Topic 326)" to clarify its new credit impairment guidance in ASC 326, based on implementation issues raised by stakeholders. ASU 2019-11 clarifies that expected recoveries are to be included in the allowance for credit losses for these financial assets; an accounting policy election can be made to adjust the effective interest rate for existing troubled debt restructurings based on the prepayment assumptions instead of the prepayment assumptions applicable immediately prior to the restructuring event; and extends the practical expedient to exclude accrued interest receivable from all additional relevant disclosures involving the amortized cost basis. For the Bank, the provisions of this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for all entities as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. See the discussion regarding the adoption of ASU 2016-13 above.

(dollars in thousands)

2. Cash and Cash Equivalents

The Bank maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy minimum deposit requirements and to compensate other banks for certain correspondent services. The Federal Deposit Insurance Corporation insures these accounts up to $250 per account. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Bank as of December 31, 2022 and 2021.

3. Investment Securities

Investment securities consist of the following:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities				
Held-to-Maturity:				
Mortgage-backed - government sponsored enterprises (GSE) - residential	$ 64,559	$ 1	$ (4,798)	$ 59,762
SBA pools	1,229	-	(74)	1,155
Total Held-to-Maturity Securities	$ 65,788	$ 1	$ (4,872)	$ 60,917

(dollars in thousands)

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities Available-for-Sale:				
Agency GSE	$ 1,699	$ -	$ (19)	$ 1,680
Mortgage-backed - GSE - residential	6,668	-	(273)	6,395
State and political sub-division	4,342	-	(23)	4,319
SBA pools	1,616	-	(108)	1,508
Total Available-for-Sale Securities	$ 14,325	$ -	$ (423)	$ 13,902
Total Investment Securities	$ 80,113	$ 1	$ (5,295)	$ 74,819

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities Held-to-Maturity:				
Mortgage-backed - GSE - residential	$ 21,962	$ 930	$ (36)	$ 22,856
SBA pools	1,649	117	-	1,766
Total Held-to-Maturity Securities	$ 23,611	$ 1,047	$ (36)	$ 24,622

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities Available-for-Sale:				
Agency GSE	$ 2,899	$ 82	$ -	$ 2,981
Mortgage-backed - GSE - residential	11,144	549	-	11,693
State and political sub-division	5,470	199	-	5,669
SBA pools	2,196	78	-	2,274
Total Available-for-Sale Securities	$ 21,709	$ 908	$ -	$ 22,617
Total Investment Securities	$ 45,320	$ 1,955	$ (36)	$ 47,239

First Commerce Bank

Notes to Consolidated Financial Statements

(dollars in thousands)

The amortized cost and fair value of investment securities at December 31, 2022 and 2021, by contractual maturity, are shown below. Expected cash flows from mortgage-backed securities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories of the following summary:

Year Ended December 31, 2022		Amortized Cost		Fair Value
Investment securities Held-to-Maturity:				
Due within one year or less	$	-	$	-
Due within one through five years		-		-
Due within five through ten years		394		373
Due after ten years		835		782
Mortgage-backed - GSE – residential		64,559		59,762
Total Held-to-Maturity Securities	$	65,788	$	60,917

Year Ended December 31, 2022		Amortized Cost		Fair Value
Investment securities Available-for-Sale:				
Due within one year or less	$	2,615	$	2,594
Due within one through five years		3,426		3,405
Due within five through ten years		627		587
Due after ten years		989		921
Mortgage-backed - GSE – residential		6,668		6,395
Total Available-for-Sale Securities	$	14,325	$	13,902
Total Investment Securities	$	80,113	$	74,819

Year Ended December 31, 2021		Amortized Cost		Fair Value
Investment securities Held-to-Maturity:				
Due within one year or less	$	-	$	-
Due within one through five years		-		-
Due within five through ten years		622		659
Due after ten years		1,027		1,107
Mortgage-backed - GSE – residential		21,962		22,856
Total Held-to-Maturity Securities	$	23,611	$	24,622

(dollars in thousands)

Year Ended December 31, 2021		Amortized Cost		Fair Value
Investment securities Available-for-Sale:				
Due within one year or less	$	1,910	$	1,922
Due within one through five years		6,458		6,728
Due within five through ten years		535		559
Due after ten years		1,662		1,715
Mortgage-backed - GSE – residential		11,144		11,693
Total Available-for-Sale Securities	$	21,709	$	22,617
Total Investment Securities	$	45,320	$	47,239

At December 31, 2022 and 2021, investment securities held to maturity with an amortized cost of $4,264 and $4,095, respectively, were pledged to secure public funds on deposit.

(dollars in thousands)

The fair value of investment securities with unrealized losses by length of time that the individual investment securities have been in a continuous loss position at December 31, 2022 is as follows:

Year Ended December 31, 2022	Total Number in a Loss Position	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses
Investment securities Held-to-Maturity:					
Agency GSE	1	$ 373	$ (22)	$ -	$ -
Mortgage-backed - GSE - residential	49	57,670	(4,327)	2,295	(523)
Total Temporarily Impaired Held-to-Maturity Securities	50	$ 58,043	$ (4,349)	$ 2,295	$ (523)
Investment securities Available-for-Sale:					
Agency GSE	2	$ 1,680	$ (19)	$ -	$ -
Mortgage-backed - GSE - residential	27	7,903	(381)	-	-
State and political sub-division	11	3,514	(23)	-	-
SBA Pools	-	-	-	-	-
Total Temporarily Impaired Available-for-Sale Securities	40	$ 13,097	$ (423)	$ -	$ -
Total Temporarily Impaired Securities	90	$ 71,140	$ (4,772)	$ 2,295	$ (523)

First Commerce Bank

Notes to Consolidated Financial Statements

(dollars in thousands)

December 31, 2021	Total Number in a Loss Position	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses
Investment securities Held-to-Maturity:					
Mortgage-backed - GSE - residential	2	$ 2,858	$ (36)	$ -	$ -
SBA Pools	-	-	-	-	-
Total Temporarily Impaired Held-to-Maturity Securities	2	$ 2,858	$ (36)	$ -	$ -
Investment securities Available-for-Sale:					
Agency GSE	-	$	$	$ -	$ -
Mortgage-backed - GSE - residential	-	-	-	-	-
State and political sub-division	-	-	-	-	-
SBA Pools	-	-	-	-	-
Total Temporarily Impaired Available-for-Sale Securities	-	$ -	$ -	$ -	$ -
Total Temporarily Impaired Securities	2	$ 2,858	$ (36)	$ -	$ -

The unrealized losses in each of the categories presented in the tables above are discussed in the paragraphs that follow:

U.S. government sponsored entities and state and political subdivision securities: The unrealized losses on investments in these types of securities were caused by the increase in the market interest rates. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Bank did not consider these investments to be other-than temporarily impaired as of December 31, 2022 or December 31, 2021.

Residential mortgage-backed securities: The unrealized losses on investments in mortgage-backed securities were caused by increases in the market interest rates. The majority of contractual cash flows of these securities are guaranteed by the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). It is expected that the securities would not be settled at a price significantly less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Bank did not consider these investments to be other-than-temporarily impaired as of December 31, 2022 or December 31, 2021.

(dollars in thousands)

4. Loans Receivable

The following table summarizes the loans outstanding, by class of loans, at December 31, 2022 and 2021:

	2022	2021
Construction and land development	$ 101,001	$ 78,711
Commercial loans and commercial real estate	950,945	757,977
SBA PPP loans	613	18,492
Residential 1-4 family real estate	15,742	19,831
Residential multi-family real estate	46,482	47,257
Home equity and second mortgages	3,926	4,695
Consumer	332	568
Total	$ 1,119,041	$ 927,531
Net deferred fees	(960)	(486)
Less: Allowance for loan losses	17,781	17,733
Total	$ 1,100,300	$ 909,312

The following tables provides the aging of the loan portfolio by loan class at December 31, 2022 and 2021.

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90+ Days and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ 101,001	$ 101,001
Commercial loans and Commercial real estate	1,133	-	-	11,864	12,997	937,948	950,945
SBA PPP Loans	-	-	-	-	-	613	613
Residential 1-4 family real estate	-	-	-	730	730	15,012	15,742
Residential multifamily real estate	-	-	-	-	-	46,482	46,482
Home equity and second mortgages	-	-	-	146	146	3,780	3,926
Consumer	-	-	-	-	-	332	332
Total	$ 1,133	$ -	$ -	$ 12,740	$ 13,873	$ 1,105,168	$ 1,119,041

(dollars in thousands)

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90+ Days and Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
Construction and land development	$ -	$ -	$ -	$ 54	$ 54	$ 78,657	$ 78,711
Commercial loans and Commercial real estate	-	563	-	8,448	9,011	748,966	757,977
SBA PPP Loans	94	-	-	-	94	18,398	18,492
Residential 1-4 family real estate	414	-	-	-	414	19,417	19,831
Residential multifamily real estate	-	-	-	508	508	46,749	47,257
Home equity and second mortgages	-	-	-	150	150	4,545	4,695
Consumer	-	-	-	-	-	568	568
Total	$ 508	$ 563	$ -	$ 9,160	$ 10,231	$ 917,300	$ 927,531

Non-performing loans are those past due 90 days or more or on non-accrual. Non-accrual loans totaled $12,740 and $9,160 at December 31, 2022 and 2021, respectively, and are included in the impaired loan balances. In addition, there were no loans 90 days or more past due and still accruing at December 31, 2022 and 2021.

In response to the COVID-19 pandemic, and its adverse economic impact on both our commercial and retail borrowers, the Bank implemented a modification program to defer principal or principal and interest payments for borrowers that were directly impacted by the pandemic who were not more than 30 days past due as of December 31, 2019, all of which were modified in accordance with the Coronavirus Aid, Relief, and Economic Security ("Cares Act"). In accordance with the Cares Act, the Bank has elected to not apply troubled debt restructuring classification to these modifications. Accordingly, these modifications would not be classified as TDR. During the year ended December 31, 2020, there were 286 loans that were deemed to have been modified in accordance with the Interagency Guidance issued on April 7, 2020, and accordingly are not classified as a TDR. At December 31, 2022, there were no loans on deferment. At December 31, 2021, there were twenty-five loans totaling $45,366 that remained on deferment. Any loan that was granted a short-term deferral and did not meet the requirements of the Cares Act or the Interagency Guidance was classified as a TDR.

<u>Credit Quality Indicators</u>: For construction and land development, commercial and commercial real estate loans, the Bank's credit quality indicator is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed on a periodic basis depending on the specific circumstances of the loan.

For residential, home equity, second mortgage and consumer loans, the Bank's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Bank's loan system.

(dollars in thousands)

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction and land development	$ 94,030	$ 6,971	$ -	$ -	$ -	$ 101,001
Commercial loans and commercial real estate	916,501	21,253	13,191	-	-	950,945
SBA PPP Loans	613	-	-	-	-	613
Total	$ 1,011,144	$ 28,224	$ 13,191	$ -	$ -	$ 1,052,559

December 31, 2022	Performing	Non-Performing	Total
Residential 1-4 family real estate	$ 15,012	$ 730	$ 15,742
Residential multi-family real estate	46,482	-	46,482
Home equity and second mortgages	3,780	- 146	3,926
Consumer	332	-	332
	$ 65,606	$ 876	$ 66,482
Total			$ 1,119,041

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction and land development	$ 78,657	$ -	$ 54	$ -	$ -	$ 78,711
Commercial loans and commercial real estate	736,270	13,259	8,448	-	-	757,977
SBA PPP Loans	18,492	-	-	-	-	18,492
Total	$ 833,419	$ 13,259	$ 8,502	$ -	$ -	$ 855,180

December 31, 2021	Performing	Non-Performing	Total
Residential 1-4 family real estate	$ 19,831	$ -	$ 19,831
Residential multi-family real estate	47,257	-	47,257
Home equity and second mortgages	4,545	- 150	4,695
Consumer	568	-	568
	$ 72,201	$ 150	$ 72,351
Total			$ 927,531

(dollars in thousands)

Allowance for Loan Losses: The following table summarizes the allowance for loan losses as of and for the years ended December 31, 2022 and 2021, by loan category and the amount by category of the loans evaluated individually or collectively for impairment. There were no acquired loans with impaired credit quality as of or during the years ended December 31, 2022 and 2021.

December 31, 2022	Construction and Land Development	Commercial Loans and Commercial Real Estate	SBA Loans	Residential 1-4 Family Real Estate	Residential Multi-Family Real Estate	Home Equity and Second Mortgages	Consumer	Unallocated	Total
Allowance:									
Balance, beginnning	$ 1,658	$ 14,752	$ -	$ 291	$ 947	$ 65	$ 20	$ -	$ 17,733
Charge-offs	-	(179)	-	-	-	-	-	-	(179)
Recoveries	-	571	-	-	-	14	-	-	585
Provisions (Credits)	25	12	-	(74)	(285)	(23)	(15)	2	(358)
Balance, Ending	$ 1,683	$ 15,156	$ -	$ 217	$ 662	$ 56	$ 5	$ 2	$ 17,781
Period-end amount allocated to:									
Individually evaluated for impairment	$ -	$ 176	$ -	$ -	$ -	$ -	$ -	$ -	$ 176
Collectively evaluated for impairment	1,683	14,980	-	217	662	56	5	2	17,605
Balance, Ending	$ 1,683	$ 15,156	$ -	$ 217	$ 662	$ 56	$ 5	$ 2	$ 17,781
Loans:									
Individually evaluated for impairment	$ -	$ 14,430	$ -	$ 1,687	$ -	$ 146	$ -	$ -	$ 16,263
Collectively evaluated for impairment	101,001	936,515	613	14,055	46,482	3,780	332	-	1,102,778
Balance, Ending	$ 101,001	$ 950,945	$ 613	$ 15,742	$ 46,482	$ 3,926	$ 332	$ -	$ 1,119,041

December 31, 2021	Construction and Land Development	Commercial Loans and Commercial Real Estate	SBA PPP Loans	Residential 1-4 Family Real Estate	Residential Multi-Family Real Estate	Home Equity and Second Mortgages	Consumer	Unallocated	Total
Allowance:									
Balance, beginnning	$ 1,179	$ 15,632	$ -	$ 260	$ 489	$ 89	$ 214	$ -	$ 17,863
Charge-offs	(25)	-	-	-	-	-	-	-	(25)
Recoveries	-	475	-	-	-	5	1	-	481
Provisions (Credits)	504	(1,355)	-	31	458	(29)	(195)	-	(586)
Balance, Ending	$ 1,658	$ 14,752	$ -	$ 291	$ 947	$ 65	$ 20	$ -	$ 17,733
Period-end amount allocated to:									
Individually evaluated for impairment	$ -	$ 176	$ -	$ -	$ -	$ -	$ -	$ -	$ 176
Collectively evaluated for impairment	1,658	14,576	-	291	947	65	20	-	17,557
Balance, Ending	$ 1,658	$ 14,752	$ -	$ 291	$ 947	$ 65	$ 20	$ -	$ 17,733
Loans:									
Individually evaluated for impairment	$ 54	$ 8,797	$ -	$ -	$ 508	$ 150	$ -	$ -	$ 9,509
Collectively evaluated for impairment	78,657	749,180	18,492	19,831	46,749	4,545	568	-	918,022
Balance, Ending	$ 78,711	$ 757,977	$ 18,492	$ 19,831	$ 47,257	$ 4,695	$ 568	$ -	$ 927,531

Impaired Loans: The following tables present additional detail of impaired loans, segregated by category, as of and for the years ended December 31, 2022 and 2021. The unpaid principal balance represents the recorded balance prior to any charge-offs. The recorded investment represents customer balances net of any partial charge-offs recognized on the loans and unamortized deferred loan fees/costs. The interest income recognized column represents all interest income reported after the loan became impaired.

(dollars in thousands)

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial loans and			-	-	
commercial real estate	14,084	14,123	-	3,814	884
Residential 1-4 family real estate	1,687	1,685	-	1,200	30
Residential multi-family real estate	-		-	-	-
Home equity and second mortages	146	144	-	144	21
Consumer	-	-	-	-	-
Subtotal	$ 15,917	$ 15,952	$ -	$ 5,158	$ 935
With a related allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial loans and					
commercial real estate	346	346	176	346	1
Residential 1-4 family real estate	-	-	-	-	-
Residential multi-family real estate	-	-	-	-	-
Home equity and second mortages	-	-	-	-	-
Consumer	-	-	-	-	-
Subtotal	$ 346	$ 346	$ 176	$ 346	$ 1
Total:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial loans and					
commercial real estate	14,430	14,469	176	4,160	885
Residential 1-4 family real estate	1,687	1,685	-	1,200	30
Residential multi-family real estate	-	-	-	-	-
Home equity and second mortages	146	144	-	144	21
Consumer	-	-	-	-	-
Subtotal	$ 16,263	$ 16,298	$ 176	$ 5,504	$ 936

First Commerce Bank

Notes to Consolidated Financial Statements
(dollars in thousands)

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Construction and land development	$ 54	$ 54	$ -	$ 158	$ 51
Commercial loans and commercial real estate	8,448	9,869	-	8,938	104
Residential 1-4 family real estate	-	-	-	-	-
Residential multi-family real estate	508	510	-	512	5
Home equity and second mortages	150	151	-	151	-
Consumer	-	-	-	-	-
Subtotal	$ 9,160	$ 10,584	$ -	$ 9,759	$ 160
With a related allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial loans and commercial real estate	349	349	176	436	21
Residential 1-4 family real estate	-	-	-	-	-
Residential multi-family real estate	-	-	-	-	-
Home equity and second mortages	-	-	-	-	-
Consumer	-	-	-	-	-
Subtotal	$ 349	$ 349	$ 176	$ 436	$ 21
Total:					
Construction and land development	$ 54	$ 54	$ -	$ 158	$ 51
Commercial loans and commercial real estate	8,797	10,218	176	9,374	125
Residential 1-4 family real estate	-	-	-	-	-
Residential multi-family real estate	508	510	-	512	5
Home equity and second mortages	150	151	-	151	-
Consumer	-	-	-	-	-
Subtotal	$ 9,509	$ 10,933	$ 176	$ 10,195	$ 181

Impaired loans include loans modified in TDR where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction of interest rate on the loan, payment extensions, forbearance or other actions intended to maximize collection. Details of the activity with respect to TDR in 2022 and 2021 are as follows:

2022	Number of New Loans	New TDR in Period Presented	Total Number of Loans	End of Period Balance	Type of Modifications
Type of loan:					
Commercial loans and commercial real estate	-	-	-	$ -	Maturity reset/rate adjustment
Commercial loans and commercial real estate	2	698	3	1,082	Rate adjustment/repayment terms
1-4 Family Residential	-	-	5	2,441	Rate adjustment/repayment terms
Total:	2	$ 698	8	$ 3,523	

(dollars in thousands)

2021	Number of New Loans	New TDR in Period Presented	Total Number of Loans	End of Period Balance	Type of Modifications
Type of loan:					
Commercial loans and commercial real estate	-	-	4	395	Maturity reset/rate adjustment
Commercial loans and commercial real estate	-	-	3	1,588	Rate adjustment/repayment terms
1-4 Family Residential	1	957	1	957	Rate adjustment/repayment terms
Total:	1	$ 957	8	$ 2,940	

The modifications did not have a significant impact on the allowance for loan losses. There were no modifications that involved forgiveness of debt.

In its estimate of the allowance for loan losses, management considers the probability of troubled debt restructuring re-default and its impact on expected cash flows. There were no troubled debt restructurings which have subsequently defaulted in the last twelve months for 2022 and 2021.

5. Premises and Equipment

Premises and equipment at December 31, 2022 and 2021 are summarized as follows:

December 31,	2022	2021
Land and land improvements	$ 5,501	$ 5,501
Leasehold improvements	2,803	2,773
Building	10,286	10,285
Building improvements	958	908
Furniture and equipment	4,161	4,021
Computers	1,266	966
Software	745	746
Total premises and equipment	25,720	25,200
Less accumulated depreciation and amortization	(9,995)	(8,815)
Total	$ 15,725	$ 16,385

Depreciation expense amounted to approximately $1,180 and $1,154 for the years ended December 31, 2022 and 2021, respectively.

6. Lease Commitments and Total Rental Expense

Our leases relate to bank branches with remaining lease terms of generally four to thirty-five years. Certain lease arrangements contain extension options which typically range from five to ten years at the then fair market rental rates. As of December 31, 2022, operating lease ROU assets and lease liabilities were $9,913 and $10,453, respectively. As of December 31, 2021, operating lease ROU assets and lease liabilities were $9,368 and $9,791, respectively. As of December 31, 2022 and 2021, the Bank has only operating leases. The lease expense was $761 and $755 for the years ended December 31, 2022 and 2021, respectively, and is recorded in Occupancy and Equipment Expense on the Consolidated Statements of Income. The cash paid against the lease liability for the years ended December 31, 2022 and 2021, was $644 and $625, respectively.

(dollars in thousands)

The table below summarizes information related to our operating leases:

December 31,	2022	2021
Right-of-use asset	$ 9,913	$ 9,368
Weighted remaining lease term in years	6.5	6.6
Weighted average discount rate	4.2%	3.9%

Expected future minimum lease payments under all leases are as follows:

2023	$ 708
2024	733
2025	754
2026	771
2027	784
Thereafter	12,051
Total lease payments	15,801
Imputed interest	(5,348)
Present value of lease liabilities	$ 10,453

(dollars in thousands)

7. Deposits

The composition of deposits at December 31, 2022 and 2021 is as follows:

	2022	2021
Non-interest bearing demand deposits	$ 202,155	$ 212,016
Interest bearing accounts:		
NOW accounts	84,750	89,924
Money market checking accounts	193,043	218,840
Savings deposits	66,011	167,843
Certificates of deposit	480,716	253,303
Total	$ 1,026,675	$ 941,926

At December 31, 2022, the scheduled maturities of certificates of deposits are as follows:

2023	$ 307,315
2024	161,926
2025	10,728
2026	494
2027	253
Total	$ 480,716

Certificates of deposit with balances of $250 or more totaled approximately $146,728 and $55,062 at December 31, 2022 and 2021, respectively.

8. Borrowings

In May 2011, the Bank entered into a Master Agreement with the FHLBNY to receive advances with terms varying from one day through ten years. Maximum borrowing capacity with the FHLBNY as of December 31, 2022 and 2021 was $281,803 and $259,215 respectively, of which $59,000 was outstanding at December 31, 2022. There were no borrowings at December 31, 2021. The Bank has a $10,000 unsecured federal funds borrowing agreement with ACBB. There were no borrowings with ACBB at December 31, 2022 and 2021.

At December 31, 2022 and 2021, advances available to the Bank from the FHLBNY are collateralized by approximately $438,063 and $388,606, respectively, in Commercial Mortgage loans.

(dollars in thousands)

		December 31, 2022		December 31, 2021	
Issue Date	Maturity Date	Amount	Interest Rate	Amount	Interest Rate
12/30/2022	1/3/2023	$ 19,000	4.61%	$ -	- %
10/17/2022	1/17/2023	10,000	4.21%	-	- %
10/17/2022	4/17/2023	15,000	4.66%	-	- %
10/17/2022	7/17/2023	15,000	4.87%	-	- %
		$ 59,000		$ -	
Weighted average interest rate			4.62%		- %

The short-term borrowings maturing on January 3, 2023 and January 17, 2023, were subsequently paid off.

9. Commitments and Contingencies

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which are conditional commitments issued by the Bank to guarantee the performance of an obligation or service of a customer to a third party. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

Credit policies and procedures, including collateral requirements, where applicable, for commitments to extend credit and standby letters of credit are the same as those applicable to loans and the credit risk associated with these instruments is considered in management's assessment of adequacy of the allowance for loan losses.

Unused Commitments	2022	2021
Unused home equity credit lines	$ 5,442	$ 5,635
Commitments to fund loans secured by real estate	166,695	75,329
Other unused loan commitments	20,277	17,379
Total	$ 192,414	$ 98,343

Financial instruments whose contract amounts represent credit risk, which are not reflected in the Bank's consolidated financial statements consisted of the following:

Outstanding loan commitments representing the unused portion of loan commitments available to individuals and companies as long as there is no violation of any condition established in the contract. Outstanding loan commitments generally have a fixed expiration date of one year or less, except for home equity credit line commitments which generally have a fixed expiration date of up to twenty years. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit, is based upon management's credit evaluation of the customer. Various types of collateral may be held, including property and marketable securities. The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers. The allowance recognized associated with unused commitments is included in other liabilities on the balance sheet.

(dollars in thousands)

Following is a roll forward of the allowance for unused commitments at December 31, 2022 and 2021:

	2022	2021
Beginning Balance	$ 1,431	$ 1,282
Provision related to unfunded commitments	813	149
Ending Balance	$ 2,244	$ 1,431

The provision related to unfunded commitments is recorded in other expenses on the Income Statement.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2022, and 2021, standby letters of credit with customers were $2,461 and $1,558, respectively. These balances are included in other unused loan commitments in the unused commitments table.

The Bank is involved, from time to time, as a plaintiff or defendant in various legal actions arising in the normal course of business. As of December 31, 2022, the Bank was not involved in any material legal matters, the outcome of which, if determined in a manner adverse to the Bank, would have a material adverse effect on the Bank's consolidated statements of financial condition or consolidated statements of income.

10. Income Taxes

The components of the provision for income tax expense (benefit) for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Current expense:		
Federal	$ 4,306	$ 4,446
State	1,244	1,366
Deferred expense (benefit):		
Federal	(187)	(168)
State	(88)	98
Total	$ 5,275	$ 5,742

(dollars in thousands)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 4,556	$ 4,480
Other	1,101	851
Leases	138	107
PPP Loans and Fees	2	135
Total deferred tax assets	5,797	5,573
Deferred tax liabilities:		
Unrealized (loss) gain on available-for-sale securities	114	(243)
Depreciation	(599)	(732)
Prepaid expenses	(165)	(149)
Deferred loan costs	(710)	(644)
Total deferred tax liabilites	(1,360)	(1,768)
Net Deferred Tax Asset	$ 4,437	$ 3,805

A valuation allowance is established when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2022, and 2021, management evaluated positive and negative evidence impacting the realization of deferred tax assets and determined no valuation allowance is required.

Applicable income taxes for financial reporting differ from the amount computed by applying the statutory federal tax rate to income before federal taxes. The reasons for these differences are as follows:

December 31,	2022	2021
Computed "expected" income tax expense (benefit) from operations	$ 4,592	$ 4,710
Increase (decrease) in taxes resulting from:		
State taxes, net of federal income tax benefit	894	1,157
Other	(211)	(125)
Total	$ 5,275	$ 5,742

The Bank’s tax years that remain subject to examination by taxing authorities are for the tax years after 2018 for federal and after 2017 for state. However, to the extent net operating loss carryforwards were utilized, these losses from earlier years may still be adjusted upon examination. Management has evaluated the Bank’s positions and concluded that the Bank has no uncertain tax positions that require adjustment to the financial statements. There were $8 in interest and penalties recognized in 2022 and no interest and penalties recognized in 2021.

11. Stockholders' Equity

Recapitalization: On July 22, 2010, Northern State Bank (now First Commerce) entered into a Recapitalization Agreement (the "Recapitalization") with a group of investors, who agreed to assist in raising between $15,000 and $30,000 in new capital for the Bank.

At a Special Meeting of Stockholders held on September 15, 2010, the stockholders voted to amend the Bank's Certificate of Incorporation to increase the number of the Bank's authorized shares of common stock to 30,000,000 and also increase the size of the Bank's Board of Directors to fifteen members.

The price per share was determined as of the month end prior to closing pursuant to a formula contained in the Recapitalization Agreement. Under the formula, the per share purchase price was the Bank's tangible book value per share, as determined under the Recapitalization Agreement, plus $1.21. The Bank's tangible book value per share was determined by taking the Bank's tangible stockholders' equity as of November 30, 2010, deducting certain transactional expenses to be incurred by the Bank, and dividing the result by the number of outstanding shares of the Bank's common stock.

The recapitalization was finalized and completed on December 14, 2010. The closing share price, after adjustments to the Bank's tangible book value per share was determined to be $2.63, which resulted in raising over $18,300 and 6,953,229 shares being issued, representing 88% of the total outstanding common shares. As part of the stock offering, the Bank issued 779,436 warrants to purchase one additional share of stock at $2.50 to certain investors. The warrants had a term of five years.

As of December 31, 2013, the exercise price for the warrants outstanding was $4.54 for the initial and secondary capitalization and $2.50 for the recapitalization. All warrants expired on December 31, 2015.

On April 29, 2013, the Bank sought to raise approximately $8,000 in new capital through the sale of up to 2,477,000 shares of common stock at an offering price of $3.25 per share. The subscription funds were held in escrow with Atlantic Community Bankers Bank until the offering closed, at which time, management broke escrow and the Bank took possession of the funds. The stock offering closed on August 30, 2013, and was oversubscribed, resulting in the issuance of 3,384,613 shares with total proceeds of approximately $11,000 in 2013. Offering costs were approximately $40.

On May 5, 2016, the Bank sought to raise $25,000 in new capital through the sale of up to 5,000,000 shares of common stock at an offering price of $5.00 per share. The subscription funds were held in escrow in a separate account at the Bank until the offering closed, at which time, management took possession of the funds. The stock offering closed on September 30, 2016, and was oversubscribed, resulting in the issuance of 6,927,286 shares with total proceeds of approximately $35,000 in 2016. Offering costs were approximately $66.

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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

(dollars in thousands)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management determined, as of December 31, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

The minimum capital level requirements applicable to the Bank for 2022 and 2021 include: (i) Tier 1 capital ratio of 9.0% and 8.5%, respectively; (ii) total capital ratio of 10.5%; (iii) Tier 1 leverage ratio of 4% and (iv) common equity Tier 1 capital ratio of 7.0% for all institutions. The amended rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios that increased each year until fully phased in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions.

As of December 31, 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table that follows. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following is a summary of the Bank's actual capital amounts and ratios compared to the FDIC minimum capital adequacy requirements for classification as a well-capitalized institution:

December 31, 2022	Bank Actual			For Capital Adequacy Purposes			Minimum Capital Adequacy with Capital Buffer			To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio		Amount	Ratio
Risk-based capital:											
Tier 1	$ 180,688	14.97%	≥	$ 72,410	≥ 6.00%	≥	$ 108,615	≥ 9.00%	≥	$ 96,546	≥ 8.00%
Total Risk-based capital	195,834	16.23%	≥	96,546	≥ 8.00%	≥	126,717	≥10.50%	≥	120,683	≥ 10.00%
Leverage (Tier 1) capital	180,688	14.33%	≥	50,441	≥ 4.00%	≥	81,967	≥ 6.50%	≥	63,052	≥ 5.00%
Common equity (Tier 1) capital	180,688	14.97%	≥	54,307	≥ 4.50%	≥	84,478	≥ 7.00%	≥	78,444	≥ 6.50%

(dollars in thousands)

December 31, 2021	Bank Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Risk-based capital:								
Tier 1	$ 171,619	18.13%	≥ $ 56,791	≥ 6.00%	≥ $ 80,453	≥ 8.50%	≥ $ 75,721	≥ 8.00%
Total Risk-based capital	183,541	19.39%	≥ 75,721	≥ 8.00%	≥ 99,384	≥10.50%	≥ 94,651	≥ 10.00%
Leverage (Tier 1) capital	171,619	15.12%	≥ 45,410	≥ 4.00%	≥ 73,791	≥ 6.50%	≥ 56,763	≥ 5.00%
Common equity (Tier 1) capital	171,619	18.13%	≥ 42,593	≥ 4.50%	≥ 66,256	≥ 7.00%	≥ 61,523	≥ 6.50%

Dividend Restrictions: Banking regulations limit the number of dividends that may be paid without prior regulatory agency approval. Since the Bank's deposits are insured by the FDIC, no dividends may be paid if the Bank is in default on any assessment due the FDIC.

In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. As of December 31, 2022, and 2021, there are no dividend restrictions.

12. Employee Benefit Plans

The Bank has an approved savings plan under Section 401(k) of the Internal Revenue Code. All full-time employees the age of 21 or older are eligible to participate in the plan. Under the plan, the Bank is allowed to make elective matching contributions. As of December 31, 2021, the Bank increased its match to 50% of the first 6% of the employee's wages with a cap of 50% of the employee's contribution. The Bank made contributions of $149 and $145 for the years ended December 31, 2022 and 2021, respectively. This expense is recorded in salaries and employee benefits in the statements of income.

13. Fair Value

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

(dollars in thousands)

If there has been a significant decrease in the volume and the level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2: Valuation is determined from observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3: Valuation is derived from model-based and other techniques in which at least one significant input is unobservable in the market and which may be based on the Bank's own estimates about assumptions that a market participant would use to value the asset or liability.

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

Fair Value Measurements at December 31, 2022				
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
Agency GSE	$ -	$ 1,680	$ -	$ 1,680
Mortgage-backed - GSE	-	6,395	-	6,395
State municipal	-	4,319	-	4,319
SBA pools	-	1,508	-	1,508
Total	$ -	$ 13,902	$ -	$ 13,902

Fair Value Measurements at December 31, 2021				
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
Agency GSE	$ -	$ 2,981	$ -	$ 2,981
Mortgage-backed - GSE	-	11,693	-	11,693
State municipal	-	5,669	-	5,669
SBA pools	-	2,274	-	2,274
Total	$ -	$ 22,617	$ -	$ 22,617

(dollars in thousands)

The fair value of available-for-sale securities is the market value based on quoted market prices of the identical security as of the measurement date, when available (Level 1). If listed prices or quotes are not available, fair value is based upon quoted market prices for similar assets or, due to the limited market activity of the instrument, externally developed models that use significant observable inputs (Level 2) or externally developed models that use unobservable inputs due to limited or no market activity of the instrument (Level 3). It includes model pricing, defined as valuing securities based upon their relationship with other benchmark securities and market information from third party sources. In the absence of current market activity, securities may be evaluated by reference to similarly situated bonds. There was no change in valuation techniques used to measure fair value or transfer of levels for the years ended December 31, 2022 and 2021.

The following table presents the Bank's financial assets subject to fair value adjustments on a non-recurring basis by level within the fair value hierarchy:

December 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets:				
OREO	$ -	$ -	$ 3,971	$ 3,971
Impaired loans, net	$ -	$ -	$ 170	$ 170
December 31, 2021				
Financial assets:				
OREO	$ -	$ -	$ 4,345	$ 4,345
Impaired loans, net	$ -	$ -	$ 173	$ 173

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. These loans are measured at the fair value of collateral less estimated disposition costs. The collateral is primarily real estate whose value is based on appraisals performed by certified appraisers. These values are generally adjusted based on management's knowledge of changes in market conditions or other factors. Since the adjustments may be significant, are based on management's estimates and are generally unobservable, they have been classified as Level 3.

(dollars in thousands)

The following table's present additional qualitative information about assets measured at fair value on a non-recurring basis and for which the Bank has utilized Level 3 inputs to determine fair value:

Balances as of December 31, 2022	Qualitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
OREO	$ 3,971	Appraisal of collateral (1)	Appraisal adjustments	1.5% - 7.4% (4.5%)
Impaired loans, net	170	Cash flow evaluation (2)	Appraisal adjustments	4.1% - 14.1% (7.9%)

Balances as of December 31, 2021	Qualitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
OREO	$ 4,345	Appraisal of collateral (1)	Appraisal adjustments	2.2% - 16.2% (7.3%)
Impaired loans, net	173	Appraisal of collateral (1)	Appraisal adjustments	4.7% - 29.4% (17.1%)

(1)Appraisals may be adjusted for qualitative factors such as interior condition of the property and liquidation expenses. Fair value may also be based on negotiated settlements with the borrower.
(2)Present value of cash flow may be adjusted for the effective interest rate, as well as the modified payment (if applicable).

Fair Value of Financial Instruments: In addition to the disclosures of financial instruments recorded at fair value, generally accepted accounting principles require the disclosure of the estimated fair value for certain of the Bank's financial instruments. The majority of the Bank's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Bank's general practice and intent is to hold its financial instruments to maturity. Fair value estimates have been determined based on the methodologies management considers most appropriate for each financial instrument.

The carrying value of the following short-term financial instruments approximates their fair value. These instruments generally have limited credit exposure, no stated or short-term maturities and carry interest rates that approximate market value.

- Cash and cash equivalents
- Restricted stock
- Accrued interest receivable
- Demand, savings, money market and NOW deposits
- Accrued interest payable

The fair value methodology for investment securities available-for-sale is described above. Investment securities held-to-maturity are similarly measured using quoted prices from an independent third party that provides valuation services by using quotes for similar assets, with similar terms, in actively traded markets.

For short-term loans and variable rate loans which re-price within 90 days, the carrying value was considered to approximate fair value. For other types of loans, fair value was estimated by discounting cash flows using interest rates approximating current market rates

(dollars in thousands)

for similar loans and adjusted to reflect credit risk. Where quoted market prices are available, such market prices were used as estimates for fair value.
The fair values of time deposits were estimated by discounting contractual cash flows using the current market rates for instruments with similar maturities.

The estimated fair values of FHLBNY borrowings are based on the discounted value of estimated cash flows. The discount rate is estimated using current market rates for similar instruments.

The fair value of commitments to extend credit is estimated using the fees currently charged for similar agreements. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements plus the estimated cost to terminate or otherwise settle the obligations. Fair values of these unrecognized financial instruments are considered immaterial.

The following are the estimated fair values of the Bank's financial instruments as of December 31, 2022 and 2021:

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 42,585	$ 42,585	$ 113,338	$ 113,338
Investment securities	79,690	74,819	46,228	47,239
Restricted stock	3,699	3,699	945	945
Loans receivable, net	1,100,300	1,067,044	909,312	932,124
Accrued interest receivable	4,638	4,638	4,432	4,432
Financial liabilities:				
Demand, savings and NOW deposits	545,959	553,419	688,623	669,807
Certificates of deposits	480,716	489,412	253,303	254,229
FHLB borrowings	59,000	59,112	-	-
Accrued interest payable	993	993	100	100

14. Stock-Based Compensation

During 2009, the shareholders of the Bank approved the Bank's 2009 Equity Incentive Plan (stock option plan or the Plan), which permits the grant of share options or restricted stock awards to Directors, employees and service providers for up to 209,475 shares of common stock, as adjusted for the 5% stock dividend issued during 2010 and 2011. These options may be incentive or non-qualified stock options. Stock options and stock awards are generally granted with an exercise price equal to the fair value of the Bank's common stock on the date of grant. To date, 240,295 options have been granted and 62,130 options have been forfeited under the plan and 31,310 expired under the plan.

On April 28, 2011 the Bank's shareholders approved the 2011 Equity Compensation Plan. A maximum of 842,856 awards, as adjusted for the 2011 5% stock dividend, may be granted under the Plan. These awards may be incentive or non-qualified stock options or shares of restricted stock. To date, 884,900 options have been granted and 47,460 options have been forfeited under the plan and 5,416 expired under the plan.

(dollars in thousands)

On April 21, 2015 the Bank's shareholders approved the 2015 Equity Compensation Plan A and B. A combined maximum of 1,400,000 awards may be granted under the Plans. These awards may be incentive or non-qualified stock options or shares of restricted common stock. To date, 1,611,500 options have been granted and 315,700 options have been forfeited under the plan with 104,200 options available to be granted.

The stock options granted under each of the plans have a vesting term of 5 years and expire in 10 years from the date of each grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the table below:

December 31,	2022	2021
Risk-free interest rate	3.07%	1.01%
Expected term	5 years	5 years
Expected stock price volatility	24.83%	4.64%

The activity in the stock option plan during the year ended December 31, 2022 and 2021 is summarized as follows:

December 31, 2022	Number of Options	Weighted Average Exercise Price	Remaining Term	Aggregate Intrinsic Value
Outstanding at beginning of year	1,485,551	$ 3.93	4.3	-
Granted in 2022	30,000	6.50	-	-
Exercised in 2022	(469,000)	3.37	-	-
Forfeited or expired in 2022	(25,301)	6.20	-	-
Outstanding at end of year	1,021,250	$ 4.21	2.8	2,594
Vested and Exercisable at end of year	978,850	$ 4.09	2.6	2,604
Weighted average fair value of options granted			$ 6.50	
Unvested options as of December 31, 2022			42,400	

(dollars in thousands)

December 31, 2021	Number of Options		Weighted Average Exercise Price	Remaining Term	Aggregate Intrinsic Value
Outstanding at beginning of year	1,941,051	$	3.77	4.6	-
Granted in 2021	68,000		4.00	-	-
Exercised in 2021	(515,600)		3.31	-	-
Forfeited or expired in 2021	(7,900)		5.00	-	-
Outstanding at end of year	1,485,551	$	3.93	4.3	2,927
Vested and Exercisable at end of year	1,254,550	$	3.89	3.6	2,522
Weighted average fair value of options granted				$ 4.00	
Unvested options as of December 31, 2021				231,001	

Total compensation cost that has been charged to expense for these options and awards totaled $166 and $191 for 2022 and 2021, respectively. As of December 31, 2022, there was approximately $70 of total unrecognized compensation cost related to non-vested options which is expected to be recognized over a weighted average period of 3.9 years.

15. Related Party Transactions

Loans to related parties include loans made to certain Officers, Directors, and their affiliated interests. All such loans are current and performing in accordance with their original terms. As of December 31, 2022, and 2021, outstanding loans to Officers, Directors, and their affiliated interests amounted to $3,323 and $3,417, respectively.

		2022		2021
Beginning Balance	$	3,417	$	5,924
New Loans		-		-
Loan Paydowns		(94)		(2,507)
Ending Balance	$	3,323	$	3,417

Related party deposits were $27,015 and $26,089 as of December 31, 2022 and 2021, respectively.

In 2016, the Bank entered into a lease for a branch in Robbinsville, New Jersey from an entity whose principal is also an investor of the Bank. Rent paid for the location was $151 and $187 in 2022, and 2021, respectively.

The Bank engages one of its director’s law firm for services for the Bank. The firm was paid $83 and $59 in 2022, and 2021, respectively.

(dollars in thousands)

16. Revenue Recognition

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of monthly service charges, check orders, other deposit account related fees, wire transfers, returned deposit fees, and safe deposit box rentals. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Bank's performance obligation for wire transfers, returned deposit fees, and safe deposit box rental are largely satisfied, and related revenue recognized, when the services are rendered. Payment is typically received immediately.

Other

Other fees are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Bank's debit cards are processed through card payment networks such as MasterCard, Visa and STAR. ATM fees are primarily generated when a non-Bank customer uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions. Other non-interest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of ASC Topic 606, *Revenue from Contracts with Customers* (Topic 606), for the years ended December 31, 2022 and 2021.

For the Years Ended December 31,		2022		2021
Non-Interest Income				
In-scope of Topic 606:				
Service charges on deposits	$	424	$	516
Other		172		166
Non-interest income (in scope of Topic 606)		596		682
Non-interest income (out of scope of Topic 606)		845		254
Total Non-Interest Income	$	1,441	$	936
Service charges on Consolidated Statement of Income	$	718	$	772
Late fees on customer loan accounts - out of scope		(122)		(90)
In scope total above	$	596	$	682

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Bank's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2022, and December 31, 2021, the Bank did not have any contract balances.

Contract Acquisition Costs

The Bank expenses contract acquisition costs immediately because the contract life is one year or less.

First Commerce Bank

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Vice Chairman

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Corporate Secretary

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Assistant Corporate Secretary

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Chief Credit Officer

LaTifa Sciscoe
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IT Manager/Information Security Officer

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Deposit Operations

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Retail Regional Manager

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Special Assets Manager/Loan Workout Officer

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Commercial Loan Closing Manager

First Commerce Bank

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Commercial Loan Officer

Filipe Ferreira
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Commercial Loan Officer

Doreen A. Goch
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Commercial Loan Officer

Daniel Jackson
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Commercial Loan Officer

Steven Landau
Vice President
Commercial Loan Officer

Christopher Smith
Vice President
Commercial Loan Officer

Brandon Boyle
Assistant Vice President
System Administrator III

Glenn Brooks
Assistant Vice President
Audit Manager

James Cook
Assistant Vice President
Community Banking Officer

Kimberly Lorraine Flanagan
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Community Banking Officer

Jawan Graham-Worrell
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Commercial Loan Closing Supervisor

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Loan Review Officer

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Accounting Manager

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Senior Accountant

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Wire and Accounts Payable Manager

Monica Rey
Assistant Vice President
HR/Payroll Administration

Joseph LoRusso
Assistant Vice President
BSA Manager

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Electronic Banking Manager

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Branch Administration Manager

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Assistant Branch Administration Manager

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Community Banking Officer

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Community Banking Officer

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Community Banking Officer

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Community Banking Officer

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Assistant Treasurer
Portfolio Manager

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Tax & Escrow Supervisor

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Senior Financial Analyst

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Senior BSA Analyst

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