First Commerce Bancorp, Inc.

Annual Report 2023

First Commerce Bancorp, Inc.

First Commerce Bancorp, Inc.

Consolidated Financial Statements

December 31, 2023 and 2022

First Commerce Bancorp, Inc.
Table of Contents

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Independent Auditor's Report

Board of Directors
First Commerce Bancorp, Inc.
Lakewood, New Jersey

Opinion

We have audited the consolidated financial statements of First Commerce Bancorp, Inc. (the Company), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in stockholder's 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 Company as of December 31, 2023 and 2022, 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 Company 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, the Company changed its method of accounting for the allowance for credit losses due to the adoption of Accounting Standards Codification Topic 326, Financial Instruments - Credit Losses (ASC 326).

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.

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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, P.C.

Philadelphia, Pennsylvania
March 15, 2024

First Commerce Bancorp, Inc.
Consolidated Statements of Financial Condition
(dollars in thousands, except share data)

	December 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents:		
Cash on hand	$ 1,745	$ 1,686
Interest-bearing deposits in other banks	59,979	40,899
Total cash and cash equivalents	61,724	42,585
Investment securities:		
Available-for-sale, at fair value	9,537	13,902
Held-to-maturity (fair value of $55,709 and $60,917 at December 31, 2023 and 2022, respectively)	59,551	65,788
Less: allowance for credit losses held-to-maturity	(26)	-
Investment securities held-to-maturity - net of allowance for credit losses	59,525	65,788
Total investment securities	69,062	79,690
Restricted stock	7,169	3,699
Loans receivable	1,251,227	1,118,081
Less: allowance for credit losses	(14,470)	(17,781)
Net loans receivable	1,236,757	1,100,300
Premises and equipment, net	15,861	15,725
Right-of-use asset	9,498	9,913
Accrued interest receivable	5,632	4,638
Bank owned life insurance	25,757	25,781
Other real estate owned, net	-	3,971
Deferred tax asset, net	2,947	4,437
Other assets	1,692	1,388
Total Assets	$ 1,436,099	$ 1,292,127
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 154,503	$ 202,155
Interest-bearing	943,295	824,520
Total deposits	1,097,798	1,026,675
Borrowings	130,000	59,000
Accrued interest payable	2,008	993
Lease liability	10,161	10,453
Other liabilities	12,136	14,615
Total Liabilities	1,252,103	1,111,736
Commitments and contingencies (see Note 9)		
Stockholders' Equity		
Preferred stock; authorized 5,000,000 shares; none issued	-	-
Common stock, par value of $0 and $2.00 per share; 30,000,000 shares authorized	-	47,570
Additional paid-in-capital	88,941	41,023
Retained earnings	102,219	92,107
Treasury stock	(6,964)	-
Accumulated other comprehensive income	(200)	(309)
Total Stockholders' Equity	183,996	180,391
Total Liabilities and Stockholders' Equity	$ 1,436,099	$ 1,292,127
Shares issued	23,856,990	23,785,490
Shares outstanding	22,830,559	23,785,490
Treasury shares	1,026,431	-

See accompanying notes to consolidated financial statements.

First Commerce Bancorp,Inc.

First Commerce Bancorp, Inc.
Consolidated Statements of Income
(dollars in thousands, except share data)

	Years Ended December 31, 2023	Years Ended December 31, 2022
Interest and Dividend Income:		
Loans, including fees	$ 67,208	$ 50,089
Investment securities:		
Available-for-sale	360	573
Held-to-maturity	1,816	1,586
Interest-bearing deposits held in other financial institutions	2,253	660
Restricted stock dividends	442	59
Total interest and dividend income	72,079	52,967
Interest Expense:		
Deposits	27,416	5,969
Borrowings	5,272	630
Total Interest Expense	32,688	6,599
Net interest income	39,391	46,368
Reversal of credit losses	(3,485)	(358)
Reversal of credit losses for unfunded commitments	(1,268)	-
Provision for credit losses - held-to-maturity securities	26	-
Total reversal of credit losses	(4,727)	(358)
Net interest income after reversal of credit losses	44,118	46,726
Non-interest Income:		
Service charges and fees	816	718
Bank owned life insurance income	1,246	666
Other income	457	611
Total non-interest income	2,519	1,995
Non-interest Expenses:		
Salaries and employee benefits	17,209	16,020
Occupancy and equipment expense	3,989	3,945
Advertising and marketing	350	212
Professional fees	2,079	1,651
Data processing expense	1,054	869
FDIC insurance assessment	681	531
Loss on other real estate owned, net	59	165
Other operating expenses	2,783	3,459
Total non-interest expenses	28,204	26,852
Income before income taxes	18,433	21,869
Income tax provision	4,656	5,275
Net income	$ 13,777	$ 16,594
Earnings per common share - Basic	$ 0.58	$ 0.70
Earnings per common share - Diluted	0.58	0.69
Weighted average common shares - Basic	23,580,545	23,597,998
Weighted average common shares - Diluted	23,883,733	23,988,053

See accompanying notes to consolidated financial statements.

First Commerce Bancorp, Inc.
Consolidated Statements of Comprehensive Income
(dollars in thousands)

	Years Ended December 31, 2023	Years Ended December 31, 2022
Net Income	$ 13,777	$ 16,594
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	149	(1,331)
Tax (benefit) expense	(40)	357
Total other comprehensive income (loss)	109	(974)
Total comprehensive income	$ 13,886	$ 15,620

See accompanying notes to consolidated financial statements.

First Commerce Bancorp,Inc.

First Commerce Bancorp, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(dollars in thousands, except share data)

	Number of Common Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2022	23,316,490	$ 46,632	$ 40,213	$ 84,790	$ -	$ 665	$ 172,300
Net income	-	-	-	16,594	-	-	16,594
Other comprehensive loss	-	-	-	-	-	(974)	(974)
Dividends paid ($0.39 per share)	-	-	-	(9,277)	-	-	(9,277)
Stock options exercised	469,000	938	644	-	-	-	1,582
Stock compensation expense	-	-	166	-	-	-	166
Balance, December 31, 2022	23,785,490	47,570	41,023	92,107	-	(309)	180,391
Effect of adopting ASC 326 ("CECL")	-	-	-	102	-	-	102
Net income	-	-	-	13,777	-	-	13,777
Reclassification - holding company reorganization	-	(47,570)	47,570	-	-	-	-
Other comprehensive income	-	-	-	-	-	109	109
Dividends paid ($0.16 per share)	-	-	-	(3,767)	-	-	(3,767)
Stock options exercised	71,500	-	281	-	-	-	281
Stock compensation expense	-	-	67	-	-	-	67
Purchase of treasury stock	(1,026,431)	-	-	-	(6,964)	-	(6,964)
Balance, December 31, 2023	22,830,559	$ -	$ 88,941	$ 102,219	$ (6,964)	$ (200)	$ 183,996

See accompanying notes to consolidated financial statements.

First Commerce Bancorp, Inc.
Consolidated Statements of Cash Flows
(dollars in thousands)

	December 31, 2023	December 31, 2022
Cash Flows from Operating Activities		
Net income	$ 13,777	$ 16,594
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,121	1,180
Net accretion of securities discounts	(80)	(44)
Reversal of credit losses	(4,727)	(358)
Deferred income tax benefit (expense)	1,493	(275)
Earnings on bank owned life insurance	(1,246)	(666)
Stock compensation expense	67	166
Loss on other real estate owned, net	59	165
Amortization of operating right-of-use assets	827	761
Payments on operating lease liability	(703)	(644)
(Increase) in accrued interest receivable and other assets	(1,377)	(432)
(Decrease) increase in accrued interest payable and other liabilities	193	5,190
Net Cash Provided by Operating Activities	9,404	21,637
Cash Flows from Investing Activities		
Net change in loans receivable	(133,224)	(190,630)
Proceeds from sales of other real estate owned	3,912	209
Purchase of held-to-maturity securities	(4,120)	(54,061)
Maturities, calls and paydowns of securities available-for-sale	4,510	7,374
Maturities, calls and paydowns of securities held-to-maturity	10,441	11,938
Purchase of restricted stock	(3,470)	(2,754)
Gross proceeds from death benefit	1,270	-
Purchase of premises and equipment	(1,257)	(520)
Net Cash Used in Investing Activities	(121,938)	(228,444)
Cash Flows from Financing Activities		
Net increase in deposits	71,123	84,749
FHLB advances	130,000	59,000
FHLB repayments	(59,000)	-
Dividends paid	(3,767)	(9,277)
Purchase of treasury stock	(6,964)	-
Proceeds from exercise of stock options	281	1,582
Net Cash Provided by Financing Activities	131,673	136,054
Net increase (decrease) in cash and cash equivalents	19,139	(70,753)
Cash and Cash Equivalents, Beginning	42,585	113,338
Cash and Cash Equivalents, Ending	$ 61,724	$ 42,585
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 31,673	$ 5,707
Taxes	$ 4,199	$ 5,815
Supplementary Schedule of non-cash activities:		
Initial recognition of operating right-of-use asset and lease liability	$ -	$ (930)
Decrease in retained earnings for adoption of new accounting standard	$ 102	$ -

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Businesses: First Commerce Bancorp, Inc. (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and was organized under the laws of the State of New Jersey. The common stock of the Company trades under the symbol "CMRB". The Company's primary business is the ownership and operations of First Commerce Bank (the "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, as of December 31, 2023, operated 11 branch offices in Allentown, Bordentown, Closter, Englewood, Fairfield, Freehold, Jackson, Lakewood, Montvale, Robbinsville and Teaneck, New Jersey.

As of the close of business May 31, 2023, the Bank formed a holding company, the Company. All shareholders of the Bank received one share of the Company, with no par value in exchange for each share of the Bank, which had a par value of $2.00. Following the formation of the Company, immediately began trading its stock on the OTC markets under the symbol CMRB.

The Company owns 100% of the stock in the Bank. The Bank operates as a traditional community bank serving the markets in the communities it serves with an emphasis on commercial consumer banking.

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.

Recent Accounting Pronouncements

On January 1, 2023, the Company adopted Accounting Standards Codification (ASC) Topic 326: Financial Instruments – Credit Losses (ASC 326), which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees and other similar instruments. In addition, ASC 326 makes changes to the accounting for credit-related impairment of available-for-sale and held-to-maturity debt securities by eliminating other-than-temporary impairment charges. Following the expected loss model, credited-related losses on available-for-sale and held-to-maturity debt securities will be reflected as a valuation allowance for credit losses on those securities.

Accrued interest for all financial instruments is included in a separate line on the face of the consolidated statements of financial condition. The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on non-accrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

In adopting ASC 326, the Company utilized the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Accordingly, a cumulative effect transition adjustment was applied to the opening balance of retained earnings, effective January 1, 2023. Prior periods have not been restated and continue to be presented under the incurred loss methodology. The transition adjustment of the adoption of CECL included a increase in the allowance for credit losses on loans of $252 and a decrease in the allowance for credit losses on unfunded loan commitments of $390 which resulted in a total cumulative effect adjustment of $102 after tax increase to retained earnings. The tax effect resulted in a $36 decrease to deferred tax assets. There are no credit losses in the available-for-sale or held-to-maturity investment securities. For the year ended December 31, 2022, the Company applied the incurred loss methodology to loans receivable.

On January 1, 2023, the Company adopted ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which eliminated the accounting guidance for troubled debt restructurings by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

ASC Topic 848: Reference Rate Reform (ASC 848). On January 1, 2023, the Company adopted ASC 848, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate or by another reference rate expected to be discontinued because of the reference rate reform. The adoption of Topic 848 did not have a material impact on our consolidated financial statements.

Basis of Financial Statement Presentation and Accounting Estimate: The consolidated financial statements of the Company are prepared on accrual basis and include the accounts of the Company and its wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiaries, First Commerce Real Estate Holdings, LLC, FCB Investments, LLC, FC Delaware Investment Company, Inc. (the "FC Delaware") and the FC Delaware's 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 Company conform to the 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 credit losses, the valuation of deferred tax assets and fair value disclosures. Actual results could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassification: Certain amounts have been reclassified to conform to the current period's presentation. These changes had no effect on the Company's results of operations and financial condition.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Company 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, 2023 and 2022, the Company'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 classified as 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 Company 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 using the interest method. 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.

Investment securities portfolio includes securities of U.S. government sponsored entities. residential mortgage-backed securities issued by Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), these securities have the explicit guarantee of the government agency or government sponsored enterprise, therefore, no allowance for credit losses (ACL) was recorded for these securities. With regard to the state and political subdivision securities, the Company considers issuer bond ratings, the financial condition of the issuer, and whether issuers continue to make timely interest and principal payments under the contractual terms of the securities. At adoption of CECL on January 1, 2023 and at December 31, 2023, there was no ACL related to these securities. With regard to the corporate debt securities, the Company evaluated these securities under the CECL standards and recorded a $26 ACL related to these securities at December 31, 2023.

For available-for-sale debt securities with an unrealized loss position, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income with the establishment of an allowance under CECL compared to a direct write down of the security under the previously applicable other-then-temporary impairment methodology. For available-for-sale debt securities that do not meet the criteria, the Company evaluates whether any decline in fair value is due to the credit loss factors. In making this assessment, management considers any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit loss is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Prior to January 1, 2023, the Company periodically evaluates the investment securities for other-than-temporary impairment (OTTI) at least on a quarterly basis when economic or market concerns warrant such evaluation. In determining OTTI, the Company considered many factors such as (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 Company 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 Company will be required to sell the investment before recovery of its amortized cost basis, which may be maturity. The assessment of whether an OTTI exists involve a high degree of subjectivity and judgement and was based on information available to the Company at a point in time. 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. The Company determined that no OTTI charges were required during 2022.

Restricted Stock: The Company holds investments in the common stocks of Atlantic Community Bankers Bank ("ACBB") and Federal Home Loan Bank of New York ("FHLB"). 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 credit 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 without anticipating prepayments.

The Company's loan portfolio is segmented as follows:

- Construction and land development
- Commercial loans
- Commercial real estate and SBA loans and SBA Paycheck Protection Program ("PPP") loans
- 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 Company accounts for interest on impaired loans in a similar fashion.

Allowance for Credit Losses: The allowance for credit losses is maintained at the level considered reasonable by management to cover lifetime expected credit losses inherent in financial assets at the balance sheet date. The measurement of expected credit losses is applicable to loans receivable, off-balance sheet credit exposure such as unfunded loan commitments and investment securities held-to-maturity. The allowance for credit losses is established through provisions for credit losses charged against earnings. The methodology for determining the allowance for credit losses is considered a significant estimate due to a high degree of judgement, the subjectivity of the assumptions used, and the potential for changes in the forecasted economic environment that could result in changes to the amount of the recorded allowance for credit losses. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance.

When establishing the allowance for credit losses, expected losses are evaluated and calculated on a collective, or pooled, basis for those loans which share similar characteristics. If the loan does not share risk characteristics with other loans, the Bank will evaluate the loan on an individual basis. The Company has segmented its loan portfolio consistent with the manner in which it manages credit risk and calculates estimated credit losses for these loan segments using quantitative models and qualitative factors. 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 Loans: Commercial loans are for commercial, corporate and business purposes, including issuing letters of credit. the Company'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: 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 Company also utilizes third party experts to provide environmental and market valuations. Substantial effort is required to underwrite, monitor and evaluate commercial real estate loans.

Small Business Administration Paycheck Protection Program Loans (SBA PPP): SBA PPP loans were primarily designed and offered as a temporarily relief under the Economic Aid Act during the Novel Coronavirus impact to small businesses as an incentive to keep their employees on the payroll. These loans were guaranteed by SBA.

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.

Generally speaking, the Company's threshold for loan to value is 70% and for debt service coverage is 1.2 x for all loan categories.

Allowance for Credit Losses

The estimate of expected credit losses is based on relevant information about historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The Company engages a third-party vendor to assist in the CECL calculation and has established a management team to oversee the quarterly estimation process for the allowance for credit losses. The allowance for credit losses calculation methodology relies on discounted cash flow models that correlate relationships between certain financial metrics and external market and macroeconomic variables. Allowance for credit losses are aggregated for the major loan segments, with similar risk characteristics. However, for the purposes of calculating the reserves, these segments may be further broken down into loan classes by risk characteristics that include but are not limited to regulatory call codes, industry type, geographic location, and collateral type. Some of the key factors that are used in the CECL calculations are: methods based on probability of default, forecasts, expected credit losses, economic conditions and qualitative factors. The qualitative factors include but are not limited to lending policies, portfolio concentrations, industry competition, external loan review and lending management. The Company uses current loan data and loss history, calculates the weighted average remaining maturity in each loan category, and plots peer history against various leading economic indicators to provide a forward-looking feature. The Company then takes that information, adds custom qualitative factors and specific reserves tied to collateral dependent loans to calculate its allowance for credit losses.

The Company utilizes historical loan performance and loss data adjusted for current conditions and reasonable and supportable forecasts to derive loan loss assumptions within its CECL model. The Company has limited historical losses relative to peer banks over its history, hence a broader, external peer loan loss data set is utilized as a proxy for forecasted lifetime loan portfolio losses.

The Company also incorporates a reasonable and supportable loss forecast period to account for the effect of forecasted economic conditions and other factors on the performance of the loan portfolio which could differ from historical loss experience. Forward looking adjustments considers the macro-economic indicator for each loan pool that most closely resembles historical losses for the respective pool. The forecasted losses for each pool are adjusted for a period up to two years depending on the lag period that applies to the corresponding economic indicator. The Company generally utilizes a forecast period ranging over 12 - 24 months. For the contractual term that extends beyond the forecast period, the Company reverts to historical loss rates immediately starting in the 9th quarter for each loan and in each scenario in which the loan's remaining life is longer than 8 quarters. The forecast period is 24 months (8 quarters).

The Company uses several qualitative factors to supplement the other elements of its allowance for credit losses calculation under CECL. These qualitative factors are intended to estimate losses that differ from actual historical loss experience. Relevant factors included, but are not limited to, changes in lending policy, lending staff and management. external loan review, portfolio concentrations, and industry conditions. Although the estimation of credit losses can be somewhat subjective, the application of such qualitative factors must be reasonable and supportable.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

Allowance for Loan Losses:

Prior to the adoption of CECL, under the incurred loss methodology, the allowance for loan losses consisted of allocated and general components. The allocated component related to loans that were classified as impaired. The general component consisted of quantitative and qualitative factors and covered nonimpaired loans. The quantitative factors were based on historical charge-off experience. The qualitative factors were determined based on an assessment of internal and/or external influences on credit quality that were not fully reflected in the historical losses. For those loans that were classified as impaired, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan were lower than the carrying value of that loan.

Prior to the adoption of CECL, under the incurred loss methodology, impaired loans were individually evaluated for specific reserves. A loan was considered impaired when, based on current information and events, it was probable that the Company would 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 were not classified as impaired. Management determined 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 was 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 was collateral dependent.

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

The concept of troubled debt restructuring existed under the incurred loss methodology, when the Company, 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 Company) to the borrower that it would not otherwise consider. These concessions could have included forgiveness of principal, extension of maturity dates, reduction of stated interest rates or accrued interest, and significant delays in payments. The Company attempted to maximize its recovery of the balances of these loans through these various concessionary restructurings. All troubled debt restructurings were classified as impaired loans and were subject to measurement using discounted modified cash flows and the effective interest rate prior to modification. Troubled debt restructurings were 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.

As part of the on-going monitoring of the credit quality of the Company'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 Company considers current financial information, historical payment experience, credit documentation, public information and current economic trends. A financial review is conducted in accordance with the Company'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 Company in order to determine potential impact on credit loss estimates.

The Company categorizes construction and land development, commercial and commercial real estate loans into the following credit quality indicator 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 Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Company 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 Company'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): Prior to the adoption of CECL, under the incurred loss methodology, troubled debt restructuring exists when the Company, 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 Company) 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 Company 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 Company originates loans to customers in its primary market areas under various SBA programs that generally provide for SBA guarantees of between 50% and 100% of each loan. The Company'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 Company 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. Servicing assets are immaterial at December 31, 2023 and 2022.

Concentration of Credit Risk: A major portion of the Company'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 Company's loan portfolio is susceptible to changes in market conditions in these areas. The Company 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.

(dollars in thousands)

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 credit 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 loss on other real estate owned, net in the consolidated statements of income. There are no residential properties either in foreclosure or in the process of foreclosure at year-end 2023.

The following summarizes the roll forward of OREO for the years ended December 31, 2023 and 2022:

	2023	2022
Beginning Balance	$ 5,021	$ 5,165
Transfers from loans	-	-
Proceeds from sales	(3,912)	(209)
(Loss) gain on sales	(59)	65
Valuation allowance reversal upon sale	(1,050)	-
	-	5,021
Less: valuation allowance	-	(1,050)
Ending Balance	$ -	$ 3,971

Following is the activity in the valuation allowance:

	2023	2022
Beginning Balance	$ (1,050)	$ (820)
Additions charged to expense	-	(230)
Reversals upon sale	1,050	-
Ending Balance	$ -	$ (1,050)

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 consolidated statements of income. 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 Company; (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When a transfer does not meet the requirements for a sale, the transfer is accounted for as a secured borrowing.

Off-Balance Sheet Financial Instruments: In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated statement of financial condition when they are funded.

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 Company 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%; 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% 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, 2023.

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

Comprehensive Income: 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.

(dollars in thousands, except share data)

Stock-Based Compensation: The Company 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 Company's consolidated 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 Company estimates forfeitures at the time of grant and revises them, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

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

Operating leases, in which the Company 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 Company 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 is recorded in Occupancy and equipment expense, in the consolidated statements of income. Our expected lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Short-term leases with a term of 12 months or less are not capitalized.

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, 2023 and 2022 there were 104,000 and 0 options that were anti-dilutive, respectively.

	Years Ended December 31,	
	2023	2022
Net income	$ 13,777	$ 16,594
Weighted average common shares outstanding	23,580,545	23,597,998
Effect of diluted stock options	303,188	390,055
Weighted average common shares used to calculated diluted earnings per share	23,883,733	23,988,053
Basic earnings per common share	$ 0.58	$ 0.70
Diluted earnings per common share	$ 0.58	$ 0.69

Bank Owned Life Insurance (BOLI)

BOLI is carried at the aggregate cash surrender value of life insurance policies owned where the Company is named beneficiary. Increases in cash surrender value derived from crediting rates for underlying insurance policies is credited to noninterest income. As a named beneficiary, the Company is entitled to receive the death benefits which are recorded to bank owned life insurance income on the consolidated statements of income.

(dollars in thousands)

Subsequent Events:

The Company has evaluated subsequent events from the date of the financial statements of December 31, 2023 through the date these financial statements were available to be issued. No events or transactions were identified that could have an impact on the financial condition or results of operations of the Company as of December 31, 2023 as reported herein.

Recently Issued but not Adopted Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which is intended to enhance the transparency and decision usefulness of income tax disclosures. Notably, the ASU requires entities to disclose specific categories in the effective tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, as well as disclosures of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for annual periods beginning after December 15, 2024 on a prospective basis. Retrospective application to each period presented in the financial statements is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which requires all public entities, including those that have a single reportable segment, to provide enhanced disclosures primarily about significant segment expenses. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The new guidance is required to be applied on a retrospective basis, with all required disclosures to be made for all prior periods presented in the financial statements. The segment expense categories and amounts disclosed in prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. We are currently evaluating the impact of this standard on our consolidated financial statements.

2. Cash and Cash Equivalents

The Company 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 FDIC 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 Company as of December 31, 2023 and 2022.

3. Investment Securities

Investment securities consist of the following:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities				
Held-to-maturity:				
Agency GSE	$ 337	$ -	$ (15)	$ 322
Mortgage-backed - government sponsored enterprises (GSE) - residential	53,999	7	(3,756)	50,250
Corporate bonds	4,136	34	(49)	4,121
SBA pools	1,079	-	(63)	1,016
Total held-to-maturity securities	$ 59,551	$ 41	$ (3,883)	$ 55,709

(dollars in thousands)

3. Investment Securities (continued)

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities				
Available-for-Sale:				
Mortgage-backed - GSE - residential	$ 5,029	$ -	$ (171)	$ 4,858
State and political sub-division	3,413	-	(10)	3,403
SBA pools	1,369	-	(93)	1,276
Total available-for-sale securities	$ 9,811	$ -	$ (274)	$ 9,537
Total investment securities	$ 69,362	$ 41	$ (4,157)	$ 65,246

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities				
Held-to-maturity:				
Agency GSE	$ 395	$ -	$ (22)	$ 373
Mortgage-backed - 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

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

(dollars in thousands)

The amortized cost and fair value of investment securities at December 31, 2023 and 2022, 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:

December 31, 2023	Amortized Cost	Fair Value
Investment securities held-to-maturity:		
Due within one year or less	$ -	$ -
Due within one through five years	337	321
Due within five through ten years	4,136	4,122
Due after ten years	743	695
Mortgage-backed - GSE – residential	54,335	50,571
Total held-to-maturity securities	$ 59,551	$ 55,709

December 31, 2023	Amortized Cost	Fair Value
Investment securities available-for-sale:		
Due within one year or less	$ 1,091	$ 1,088
Due within one through five years	2,322	2,315
Due within five through ten years	694	654
Due after ten years	675	622
Mortgage-backed - GSE – residential	5,029	4,858
Total available-for-sale securities	$ 9,811	$ 9,537
Total investment securities	$ 69,362	$ 65,246

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

At December 31, 2023 and 2022, investment securities held-to-maturity with an amortized cost of $5,455 and $4,264, 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, 2023 is as follows:

December 31, 2023	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	Total Fair Value	Total Unrealized Losses
Investment securities held-to-maturity:							
Agency GSE	1	$ -	$ -	$ 322	$ (15)	$ 322	$ (15)
Mortgage-backed - GSE - residential	38	-	-	49,532	(3,756)	49,532	(3,756)
Corporate Bonds	2	1,111	(49)	-	-	1,111	(49)
SBA Pools	9	-	-	1,016	(63)	1,016	(63)
Total temporarily impaired held-to-maturity securities	50	$ 1,111	$ (49)	$ 50,870	$ (3,834)	$ 51,981	$ (3,883)
Investment securities available-for-sale:							
Mortgage-backed - GSE - residential	26	-	-	4,858	(171)	$ 4,858	$ (171)
State and political sub-division	8	1,276	(3)	1,324	(7)	2,600	(10)
SBA Pools	1	-	-	1,276	(93)	1,276	(93)
Total temporarily impaired available-for-sale securities	35	$ 1,276	$ (3)	$ 7,458	$ (271)	$ 8,734	$ (274)
Total temporarily impaired securities	85	$ 2,387	$ (52)	$ 58,328	$ (4,105)	$ 60,715	$ (4,157)

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	Total Fair Value	Total Unrealized Losses
Investment securities held-to-maturity:							
Agency GSE	1	$ 373	$ (22)	$ -	$ -	$ 373	$ (22)
Mortgage-backed - GSE - residential	48	56,515	(4,253)	2,295	(523)	58,810	(4,776)
SBA Pools	1	1,155	(74)	-	-	1,155	(74)
Total temporarily impaired held-to-maturity securities	50	$ 58,043	$ (4,349)	$ 2,295	$ (523)	$ 60,338	$ (4,872)
Investment securities available-for-sale:							
Agency GSE	2	$ 1,680	$ (19)	$ -	$ -	$ 1,680	(19)
Mortgage-backed - GSE - residential	18	6,395	(273)	-	-	6,395	(273)
State and political sub-division	11	3,514	(23)	-	-	3,514	(23)
SBA Pools	9	1,508	(108)	-	-	1,508	(108)
Total temporarily impaired available-for-sale securities	40	$ 13,097	$ (423)	$ -	$ -	$ 13,097	(423)
Total temporarily impaired securities	90	$ 71,140	$ (4,772)	$ 2,295	$ (523)	$ 73,435	$ (5,295)

(dollars in thousands)

The unrealized losses in each of the categories presented in the tables above are primarily driven by market interest rate fluctuations. The Company evaluates the investment securities in a loss position at least on quarterly basis and determined that declines in fair value are attributable to market volatility, not credit quality or other factors. The investment securities issued by the U.S. government sponsored entities, residential mortgage-backed securities guaranteed by Ginnie Mae, Freddie Mac or Fannie Mae are guaranteed by the U.S. government sponsored enterprises and have no history of credit losses. Furthermore, the Company determined that it is more than likely than not intend to sell these investment securities before recovery of their amortized cost, which may be at maturity.

At December 31, 2023, the Company's evaluated its held-to-maturity debt securities under the CECL standards and based on the credit reviews of the issuers of the corporate debt securities, the Company recorded an allowance for credit losses of $26. There was no allowance for credit losses recorded for available-for-sale debt securities at December 31, 2023. Accrued interest on available-for-sale debt securities totaled $308 at December 31, 2023, and was excluded from the estimate of credit losses.

4. Loans Receivable

The following table summarizes the loans outstanding, by class of loans, at December 31, 2023 and 2022:

	Years Ended December 31, 2023	2022
Construction and land development	$ 113,266	$ 101,001
Commercial loans	38,373	43,396
Commercial real estate	1,025,303	907,549
SBA PPP loans	234	613
Residential 1-4 family real estate	15,007	15,742
Residential multi-family real estate	56,902	46,482
Home equity and second mortgages	2,880	3,926
Consumer	307	332
Total	$ 1,252,272	$ 1,119,041
Net deferred fees	(1,045)	(960)
Less: Allowance for credit losses	14,470	17,781
Total	$ 1,236,757	$ 1,100,300

The following tables provides the aging of the loan portfolio by loan class at December 31, 2023 and 2022.

December 31, 2023	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	$ -	$ -	$ -	$ 6,971	$ 6,971	$ 106,295	$ 113,266
Commercial loans	-	-		159	159	38,214	38,373
Commercial real estate	11,458	729	-	6,473	18,660	1,006,643	1,025,303
SBA PPP Loans	-	-	-	-	-	234	234
Residential 1-4 family real estate	-	141	-	4,756	4,897	10,110	15,007
Residential multifamily real estate	-	-	-	-	-	56,902	56,902
Home equity and second mortgages	-	-	-	-	-	2,880	2,880
Consumer	-	-	-	-	-	307	307
Total	$ 11,458	$ 870	$ -	$ 18,359	$ 30,687	$1,221,585	$1,252,272

(dollars in thousands)

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	505			4,985	5,490	37,906	43,396
Commercial real estate	628	-	-	6,879	7,507	900,042	907,549
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

Non-performing loans are those past due 90 days or more or on non-accrual. In addition, there were no loans 90 days or more past due and still accruing at December 31, 2023 and 2022.

The following table presents the recorded investment in nonaccrual loans as of December 31, 2023 and 2022:

	CECL December 31,2023			Incurred Loss December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Construction and land development	$ 6,971	$ -	$ 6,971	$ -
Commercial loans	159	-	159	4,985
Commercial real estate	6,473	-	6,473	6,879
SBA PPP Loans	-	-	-	-
Residential 1-4 family real estate	4,756	-	4,756	730
Residential multifamily real estate	-	-	-	-
Home equity and second mortgages	-	-	-	146
Consumer	-	-	-	-
Total	$ 18,359	$ -	$ 18,359	$ 12,740

The following table presents the collateral-dependent loans by class of loans as of December 31, 2023.

December 31, 2023	Residential Property	UCC Business Assets	Commercial Property	Total Collateral Dependent Loans
Construction and land development	$ -	$ -	$ -	$ -
Commercial loans	-	-	-	-
Commercial real estate	-	330	-	330
SBA PPP Loans	-	-	-	-
Residential 1-4 family real estate	-	-	-	-
Residential multifamily real estate	-	-	-	-
Home equity and second mortgages	-	-	-	-
Consumer	-	-	-	-
Total	$ -	$ 330	$ -	$ 330

First Commerce Bancorp, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)

The following table presents the Company's loan portfolio based on its internal risk ratings by origination year as of December 31, 2023.

Years Ended,	2023	2022	2021	2020	2019	Prior	Revolving	Total
Construction and land development								
Pass	$ 26,438	$ 75,523	$ 4,334	$ -	$ -	$ -	$ -	$ 106,295
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	6,971	-	-	6,971
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	-	-	-
Total construction and land development	26,438	75,523	4,334	-	6,971	-	-	113,266
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial loans								
Pass	$ 316	$ 518	$ 1,491	$ 1,184	$ 3,886	$ 13,799	$ 12,350	$ 33,544
Special mention	-	-	-	133	-	227	-	360
Substandard	-	-	-	41	-	3,653	775	4,469
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	-	-	-
Total commercial loans	316	518	1,491	1,358	3,886	17,679	13,125	38,373
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ 133	$ 58	$ -	$ 191
Commercial real estate								
Pass	$ 162,636	$ 299,328	$ 197,753	$ 78,821	$ 53,701	$ 205,045	$ -	$ 997,284
Special mention	-	100	-	-	3,572	17,853	-	21,525
Substandard	-	-	-	-	2,100	4,394	-	6,494
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	-	-	-
Total commercial real estate	162,636	299,428	197,753	78,821	59,373	227,292	-	1,025,303
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ 22	$ -	$ -	$ 22
SBA PPP loans								
Pass	$ -	$ -	$ 130	$ 104	$ -	$ -	$ -	$ 234
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	-	-	-
Total SBA PPP loans	-	-	130	104	-	-	-	234
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(dollars in thousands)

The following table presents the Company's loan portfolio based on its internal risk ratings by origination year as of December 31, 2023 (continued).

Years Ended,	2023	2022	2021	2020	2019	Prior	Revolving	Total
Residential 1-4 family real estate								
Pass	$ -	$ -	$ -	$ -	$ -	$ 232	$ -	$ 232
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	710	-	710
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	14,065	-	14,065
Total residential 1-4 family real estate	-	-	-	-	-	15,007	-	15,007
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	-	-	-	-	-	14,065	-	14,065
Non-performing	-	-	-	-	-	-	-	-
Total non-rated residential 1-4 family real estate	$ -	$ -	$ -	$ -	$ -	$ 14,065	$ -	$ 14,065
Residential multifamily real estate								
Pass	$ 14,120	$ 15,687	$ 10,088	$ 1,190	$ 5,343	$ 10,474	$ -	$ 56,902
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	-	-	-
Total residential multifamily real estate	14,120	15,687	10,088	1,190	5,343	10,474	-	56,902
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Home equity and second mortgages								
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Non-rated	-	-	-	-	-	2,880	-	2,880
Total home equity and second mortgages	-	-	-	-	-	2,880	-	2,880
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ 6	$ -	$ 6
Non-rated loans:								
Performing	-	-	-	-	-	2,880	-	2,880
Non-performing	-	-	-	-	-	-	-	-
Total non-rated home equity and second mortgages	$ -	$ -	$ -	$ -	$ -	$ 2,880	$ -	$ 2,880

(dollars in thousands)

The following table presents the Company's loan portfolio based on its internal risk ratings by origination year as of December 31, 2023 (continued).

Years Ended,	2023	2022	2021	2020	2019	Prior	Revolving	Total
Consumer loans								
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Non-rated	121	-	-	-	-	186	-	307
Total consumer loans	121	-	-	-	-	186	-	307
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	121	-	-	-	-	186	-	307
Non-performing	-	-	-	-	-	-	-	-
Total non-rated consumer loans	$ 121	$ -	$ -	$ -	$ -	$ 186	$ -	$ 307
Total								
Pass	$ 203,510	$ 391,056	$ 213,796	$ 81,299	$ 62,930	$ 229,550	$ 12,350	$1,194,491
Special mention	-	100	-	133	3,572	18,080	-	21,885
Substandard	-	-	-	41	9,071	8,757	775	18,644
Doubtful	-	-	-	-	-	-	-	-
Non-rated	121	-	-	-	-	17,131	-	17,252
Total loans	203,631	391,156	213,796	81,473	75,573	273,518	13,125	1,252,272
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ 155	$ 64	$ -	$ 219
Non-rated loans:								
Performing	121	-	-	-	-	17,131	-	17,252
Non-performing	-	-	-	-	-	-	-	-
Total non-rated loans	$ 121	$ -	$ -	$ -	$ -	$ 17,131	$ -	$ 17,252

No interest income was recorded on nonaccrual loans for the years ended December 31, 2023 and 2022.

(dollars in thousands)

Credit Quality Indicators: For construction and land development, commercial and commercial real estate loans, the Company'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 Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction and land development	$ 94,030	$ 6,971	$ -	$ -	$ -	$ 101,001
Commercial loans	38,743	169	4,484			43,396
Commercial real estate	877,758	21,084	8,707	-	-	907,549
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

Allowance for Credit Losses

The following table summarizes the allowance for credit losses as of and for the years ended December 31, 2023, by loan category and the amount by category of the loans evaluated individually or collectively for impairment under the CECL methodology. There were no acquired loans with impaired credit quality as of or during the years ended December 31, 2023 and 2022.

December 31, 2023	Construction and Land Development	Commercial Loans	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, beginning	$ 1,683	$ 480	$ 14,676	$ -	$ 217	$ 662	$ 56	$ 5	$ 2	$17,781
Effect of adopting ASC 326 ("CECL")	(775)	131	801		(81)	189	(9)	(2)	(2)	252
Charge-offs	-	(213)	-	-	(6)	-	-	-	-	(219)
Recoveries	-	29	13	-	100	-	-	-	-	142
Provisions (Reversals)	(437)	(321)	(2,676)	-	(74)	49	(25)	(2)	-	(3,486)
Balance, Ending	$ 471	$ 106	$ 12,814	$ -	$ 156	$ 900	$ 22	$ 1	$ -	$14,470

(dollars in thousands)

The following table summarizes the allowance for credit losses as of and for the year ended December 31, 2022, prior to the adoption of CECL, by loan category and the amount by category of the loans evaluated individually or collectively for impairment under the incurred loss methodology. There were no acquired loans with impaired credit quality as of or during the year ended December 31, 2022.

December 31, 2022	Construction and Land Development	Commercial Loans	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, beginning	$ 1,658	$ 393	$ 14,359	$ -	$ 291	$ 947	$ 65	$ 20	$ -	$ 17,733
Charge-offs	-	(1)	(178)	-	-	-	-	-	-	(179)
Recoveries	-	88	483	-	-	-	14	-	-	585
Provisions (Reversals)	25	-	12	-	(74)	(285)	(23)	(15)	2	(358)
Balance, Ending	$ 1,683	$ 480	$ 14,676	$ -	$ 217	$ 662	$ 56	$ 5	$ 2	$ 17,781
Period-end amount allocated to:										
Individually evaluated for impairment	$ -	$ 176	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 176
Collectively evaluated for impairment	1,683	304	14,676	-	217	662	56	5	2	17,605
Balance, Ending	$ 1,683	$ 480	$ 14,676	$ -	$ 217	$ 662	$ 56	$ 5	$ 2	$ 17,781
Loans:										
Individually evaluated for impairment	$ -	$ 5,159	$ 9,271	$ -	$ 1,687	$ -	$ 146	$ -	$ -	$ 16,263
Collectively evaluated for impairment	101,001	38,237	898,278	613	14,055	46,482	3,780	332	-	1,102,778
Balance, Ending	$ 101,001	$ 43,396	$ 907,549	$ 613	$ 15,742	$ 46,482	$ 3,926	$ 332	$ -	$1,119,041

(dollars in thousands)

Impaired Loans: The following table presents loans individually evaluated for impairment, segregated by category, as of and for the year ended December 31, 2022. 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.

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	4,813	4,817	-	1,463	414
Commercial real estate	9,271	9,306	-	2,351	470
Residential 1-4 family real estate	1,687	1,685	-	1,200	30
Residential multi-family real estate	-		-	-	-
Home equity and second mortgages	146	144	-	144	21
Consumer	-	-	-	-	-
Subtotal	$ 15,917	$ 15,952	$ -	$ 5,158	$ 935
With a related allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial loans	346	346	176	346	1
Commercial real estate	-	-	-	-	-
Residential 1-4 family real estate	-	-	-	-	-
Residential multi-family real estate	-	-	-	-	-
Home equity and second mortgages	-	-	-	-	-
Consumer	-	-	-	-	-
Subtotal	$ 346	$ 346	$ 176	$ 346	$ 1
Total:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial loans	5,159	5,163	176	1,809	415
Commercial real estate	9,271	9,306	-	2,351	470
Residential 1-4 family real estate	1,687	1,685	-	1,200	30
Residential multi-family real estate	-	-	-	-	-
Home equity and second mortgages	146	144	-	144	21
Consumer	-	-	-	-	-
Subtotal	$ 16,263	$ 16,298	$ 176	$ 5,504	$ 936

The Company adopted ASU 2022-02 effective January 1, 2023. The amendments in the ASU 2022-02 eliminated the recognition of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. The Company did not have any loans modifications for the year ended December 31, 2023.

(dollars in thousands)

At December 31, 2022, 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 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	2	698	2	698	Rate adjustment/repayment terms
Commercial real estate	-	-	1	384	Rate adjustment/repayment terms
1-4 Family Residential	-	-	5	2,441	Rate adjustment/repayment terms
Total:	2	$ 698	8	$ 3,523	

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

In its estimate of the allowance for credit 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 2023 .

5. Premises and Equipment

Premises and equipment at December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023	December 31, 2022
Land and land improvements	$ 5,501	$ 5,501
Leasehold improvements	3,211	2,803
Building	10,285	10,286
Building improvements	1,032	958
Furniture and equipment	4,698	4,161
Computers	1,301	1,266
Vehicles	32	-
Software	917	745
Total premises and equipment	26,977	25,720
Less accumulated depreciation and amortization	(11,116)	(9,995)
Total premises and equipment, net	$ 15,861	$ 15,725

Depreciation expense was $1,121 and $1,180 for 2023 and 2022, respectively. These expenses were reported in Occupancy and equipment expense on the consolidated statements of income.

(dollars in thousands)

6. Leases

Our leases relate to Company 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, 2023, operating lease ROU assets and lease liabilities were $9,498 and $10,161, respectively. As of December 31, 2022, operating lease ROU assets and lease liabilities were $9,913 and $10,453, respectively. As of December 31, 2023 and 2022, the Company has only operating leases. The lease expense was $827 and $761 for the years ended December 31, 2023 and 2022, respectively, and is recorded in Occupancy and equipment expense on the consolidated statements of income. As of December 31, 2023 and 2022, short-term leases were immaterial. The cash paid against the lease liability for the years ended December 31, 2023 and 2022, was $703 and $644, respectively.

The table below summarizes information related to our operating leases:

	December 31,	
	2023	2022
Right-of-use asset	$ 9,498	$ 9,913
Weighted remaining lease term in years	6.2	6.5
Weighted average discount rate	4.2%	4.2%

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

	Amounts
2024	$ 734
2025	755
2026	771
2027	784
2028	813
Thereafter	11,239
Total lease payments	15,096
Imputed interest	(4,935)
Present value of lease liabilities	$ 10,161

(dollars in thousands)

7. Deposits

The composition of deposits at December 31, 2023 and 2022 is as follows:

	December 31, 2023	December 31, 2022
Non-interest bearing demand deposits	$ 154,503	$ 202,155
Interest-bearing accounts:		
NOW accounts	88,330	84,750
Money market checking accounts	212,004	193,043
Savings deposits	30,337	66,011
Certificates of deposit	542,624	480,716
Brokered certificates of deposit	70,000	-
Total	$ 1,097,798	$ 1,026,675

Deposit overdrafts, which are immaterial, are included within "Loans receivables" on the consolidated statement of financial condition.

At December 31, 2023, the scheduled maturities of certificates of deposits are as follows:

	Amounts
2024	$ 518,606
2025	92,676
2026	549
2027	290
2028	503
Thereafter	-
Total	$ 612,624

Certificates of deposit with balances of $250 or more totaled approximately $174,308 and $146,728 at December 31, 2023 and 2022, respectively.

8. Borrowings

In May 2011, the Company entered into a Master Agreement with the FHLB to receive advances with terms varying from one day through ten years. Maximum borrowing capacity with the FHLB as of December 31, 2023 and 2022 was $410,515 and $281,803 respectively, of which $130,000 and $59,000 were outstanding at December 31, 2023 and 2022, respectively. The Company has a $10,000 unsecured federal funds borrowing agreement with ACBB. There were no borrowings with ACBB at December 31, 2023 and 2022.

At December 31, 2023 and 2022, advances available to the Company from the FHLB are collateralized by approximately $672,638 and $483,063, respectively, in Commercial real estate loans.

(dollars in thousands)

December 31, 2023				December 31, 2022			
Issue Date	Maturity Date	Amount	Interest Rate	Issue Date	Maturity Date	Amount	Interest Rate
3/13/2023	3/13/2025	$ 25,000	4.57%	12/30/2022	1/3/2023	$ 19,000	4.61%
11/30/2023	12/1/2025	25,000	5.00%	10/17/2022	1/17/2023	10,000	4.21%
3/7/2023	3/9/2026	80,000	5.06%	10/17/2022	4/17/2023	15,000	4.66%
				10/17/2022	7/17/2023	15,000	4.87%
		$ 130,000				$ 59,000	
Weighted average interest rate			4.95%	Weighted average interest rate			4.62%

All of the borrowings at December 31, 2022 were paid off at maturity during the year 2023.

At December 31, 2023, the scheduled maturities of the borrowings are as follows:

	Amounts
2024	$ -
2025	50,000
2026	80,000
Thereafter	-
Total	$ 130,000

9. Commitments and Contingencies

The Company 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 Company 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 credit losses.

	December 31,	
Unused Commitments	2023	2022
Unused home equity credit lines	$ 5,245	$ 5,442
Commitments to fund loans secured by real estate	98,630	166,695
Other unused loan commitments	27,302	20,277
Total	$ 131,177	$ 192,414

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

(dollars in thousands)

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, 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 consolidated statements of financial conditions.

Following is a roll forward of the allowance for unfunded commitments for credit losses at December 31, 2023 and 2022:

	December 31,	
	2023	2022
Beginning balance	$ 2,244	$ 1,431
Impact of adopting ASC 326 ("CECL")	(390)	-
(Reversals) provision for unfunded commitments for credit losses	(1,268)	813
Ending balance	$ 586	$ 2,244

For the year ended December 31, 2023, the provision (reversals) for credit losses appear on the face of the consolidated statements of income. For the year ended December 31, 2022, the provision related to unfunded commitments was recorded in Other operating expenses on the consolidated statements of income.

Standby letters of credit are conditional commitments issued by the Company 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, 2023, and 2022, standby letters of credit with customers were $1,472 and $2,461, respectively. These balances are included in other unused loan commitments in the unused commitments table.

The Company 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, 2023, the Company was not involved in any material legal matters, the outcome of which, if determined in a manner adverse to the Company, would have a material adverse effect on the Company's consolidated statements of financial condition or consolidated statements of income.

(dollars in thousands)

10. Income Taxes

The components of the income tax provision for the years ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31, 2023	Years Ended December 31, 2022
Current expense:		
Federal	$ 1,748	$ 4,306
State	1,415	1,244
Deferred expense (benefit):		
Federal	1,263	(187)
State	230	(88)
Total income tax provision	$ 4,656	$ 5,275

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, 2023 and 2022 are as follows:

	Years Ended December 31, 2023	Years Ended December 31, 2022
Deferred tax assets:		
Unrealized gain on available-for-sale securities	$ 73	$ 114
Allowance for credit losses	3,852	4,556
Other	472	1,103
Lease liabilities	2,705	2,678
Total deferred tax assets	7,102	8,451
Deferred tax liabilities:		
Right-of-use assets	(2,528)	(2,540)
Depreciation	(854)	(599)
Prepaid expenses	(179)	(165)
Deferred loan costs	(594)	(710)
Total deferred tax liabilities	(4,155)	(4,014)
Deferred tax asset, net	$ 2,947	$ 4,437

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, 2023, and 2022, 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:

	Years Ended December 31, 2023	Years Ended December 31, 2022
Statutory rate	21%	21%
Statutory rate applied to income before taxes	$ 3,886	$ 4,592
Increase (decrease) in taxes resulting from:		
State taxes, net of federal income tax benefit	1,299	894
BOLI Income	(262)	(140)
Prior year true-ups	(261)	-
Other	(6)	(71)
Total income tax provision	$ 4,656	$ 5,275

The Company's tax years that remain subject to examination by taxing authorities are for the tax years after 2020 for federal and after 2018 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 Company's positions and concluded that the Company has no uncertain tax positions that require adjustment to the financial statements. There were no interest and penalties recognized in 2023 and $8 in interest and penalties recognized in 2022.

11. Stockholders' Equity

As of the close of business May 31, 2023, the Bank formed a holding company, the Company. Pursuant to the plan of acquisition, the Company was authorized to issue 30,000,000 shares of common stock, no par value per share. All shareholders of the Bank received one share, no par value, of the company in exchange for one share, $2.00 par value, of the Bank. As of the date of formation, there were 23,788,990 shares of common stock issued and outstanding which was subsequently transferred to the Company and $45,570 in common stock in the Bank was transferred to the Company in the form of additional paid-in-capital. The Company owns 100% of the stock of the Bank and the Bank continues to operate as a traditional community bank. The Company immediately began trading on the OTC markets under the symbol CMRB.

Regulatory Capital: The Company 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company 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 Company's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company 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, 2023 and 2022, that the Company meets all capital adequacy requirements to which it is subject.

The minimum capital level requirements applicable to the Company for 2023 and 2022 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, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company 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 Company's category.

(dollars in thousands)

The following is a summary of the Company's and 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, 2023	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								
Company	$184,187	14.51%≥	$ 76,149 ≥	6.00%≥	$114,223 ≥	9.00%≥	$101,532 ≥	8.00%
Bank	171,769	13.54%≥	76,102 ≥	6.00%≥	114,153 ≥	9.00%≥	101,470 ≥	8.00%
Total Risk-based capital								
Company	199,270	15.70%≥	101,532 ≥	8.00%≥	133,261 ≥	10.50%≥	126,915 ≥	10.00%
Bank	186,851	14.73%≥	101,470 ≥	8.00%≥	133,179 ≥	10.50%≥	126,837 ≥	10.00%
Leverage (Tier 1) capital								
Company	184,187	12.83%≥	57,444 ≥	4.00%≥	93,346 ≥	6.50%≥	71,805 ≥	5.00%
Bank	171,769	12.02%≥	57,183 ≥	4.00%≥	92,922 ≥	6.50%≥	71,478 ≥	5.00%
Common equity (Tier 1) capital								
Company	184,187	14.51%≥	57,112 ≥	4.50%≥	88,840 ≥	7.00%≥	82,495 ≥	6.50%
Bank	171,769	13.54%≥	57,077 ≥	4.50%≥	88,786 ≥	7.00%≥	82,444 ≥	6.50%

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%

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 by the Bank to the Company if the Bank is in default on any assessment due the FDIC.

In addition, dividends paid by the Company would be prohibited if the effect thereof would cause the Company's capital to be reduced below applicable minimum capital requirements. As of December 31, 2023, and 2022, there are no dividend restrictions.

12. Employee Benefit Plans

The Company 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 Company is allowed to make elective matching contributions. As of December 31, 2022, the Company 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 Company made contributions of $178 and $149 for the years ended December 31, 2023 and 2022, respectively. This expense is recorded in salaries and employee benefits in the consolidated statements of income.

(dollars in thousands)

13. Fair Value

Fair Value Measurements: The Company 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 Company'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.

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 Company'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, 2023				
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
Mortgage-backed - GSE - residential	$ -	$ 4,858	$ -	$ 4,858
State and political sub-division	-	3,403	-	3,403
SBA pools	-	1,276	-	1,276
Total	$ -	$ 9,537	$ -	$ 9,537

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 - residential	-	6,395	-	6,395
State and political sub-division	-	4,319	-	4,319
SBA pools	-	1,508	-	1,508
Total	$ -	$ 13,902	$ -	$ 13,902

(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, 2023 and 2022.

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

December 31, 2023	Level 1	Level 2	Level 3	Total
Financial assets:				
Collateral-dependent loans	$ -	$ -	$ 330	$ 330
December 31, 2022				
Financial assets:				
OREO	$ -	$ -	$ 3,971	$ 3,971
Impaired loans	$ -	$ -	$ 170	$ 170

Individually Evaluated Loans

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain allocated amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, non-recurring fair value measurement adjustments relating to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral supporting commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

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.

Impaired loans are measured using the present value of the future cash flows method. If an impaired loan had a partial charge-off or if the fair value of the collateral is less than carrying value, a specific reserve is established and the loan is classified as nonrecurring 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 Company has utilized Level 3 inputs to determine fair value:

Balances as of December 31, 2023	Qualitative Information about Level 3 Fair Value Measurements				
		Fair Value	Valuation Techniques	Unobservable Input	Rate [3]
Collateral-dependent loans	$	330	Cash flow evaluation [2]	Appraisal adjustments	5.25%

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		170	Cash flow evaluation [2]	Appraisal adjustments	4.1% - 14.1% (7.9%)

[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).
[3] In 2023, only one loans is in this category and the discount rate is 5.25%.

In the above tables, weighted average discounts were calculated on relative fair value for underlying loans based on the range of discount rates applied.

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 Company's financial instruments. The majority of the Company's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Company'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.

(dollars in thousands, except share data)

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 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 FHLB 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 Company's financial instruments as of December 31, 2023 and 2022:

		2023		2022	
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$ 61,724	$ 61,724	$ 42,585	$ 42,585
Investment securities	Level 2	69,062	65,246	79,690	74,819
Restricted stock	Level 3	7,169	7,169	3,699	3,699
Loans receivable, net	Level 3	1,236,757	1,192,827	1,100,300	1,067,044
Accrued interest receivable	Level 2	5,632	5,632	4,638	4,638
Financial liabilities:					
Demand, savings and NOW deposits	Level 1	495,015	495,015	545,959	553,419
Certificates of deposits	Level 2	612,624	612,293	480,716	489,412
Borrowings	Level 2	130,000	131,258	59,000	59,112
Accrued interest payable	Level 2	2,008	2,008	993	993

14. Stock-Based Compensation

During 2009, the shareholders of the Bank approved the Company'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 Company'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.

(dollars in thousands, except share data)

On April 28, 2011 the Company'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.

On April 21, 2015 the Company'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, 1,694,700 options have been granted and 325,330 options have been forfeited under the plan with 30,630 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, 2023	December 31, 2022
Risk-free interest rate	3.07% - 4.08%	3.07%
Expected term (in years)	5	5
Expected stock price volatility	35.79% - 35.82%	24.83%
Expected dividend yield	0%	0%

The activity in the stock option plan during the year ended December 31, 2023 and 2022 is summarized as follows:

December 31, 2023	Number of Options	Weighted Average Exercise Price	Remaining Term	Aggregate Intrinsic Value
Outstanding at beginning of year	1,021,250	$ 4.21	2.8	-
Granted in 2023	83,200	7.96	-	-
Exercised in 2023	(71,500)	3.93	-	-
Forfeited or expired in 2023	(9,630)	8.00	-	-
Outstanding at end of year	1,023,320	$ 4.50	2.4	1,699
Vested and Exercisable at end of year	919,150	$ 4.13	1.6	1,866
Weighted average fair value of options granted			$ 7.96	
Unvested options as of December 31, 2023			104,170	

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)

Total compensation cost that has been charged to expense for these options and awards totaled $67 and $166 for 2023 and 2022, respectively. As of December 31, 2023, there was approximately $268 of total unrecognized compensation cost related to non-vested options which is expected to be recognized over a weighted average period of 4.0 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, 2023, and 2022, outstanding loans to Officers, Directors, and their affiliated interests amounted to $3,222 and $3,323, respectively.

	December 31,	
	2023	2022
Beginning Balance	$ 3,323	$ 3,417
New Loans	-	-
Loan Paydowns	(101)	(94)
Ending Balance	$ 3,222	$ 3,323

Related party deposits were $23,058 and $27,015 as of December 31, 2023 and 2022, respectively.

In 2016, the Company entered into a lease for a branch in Robbinsville, New Jersey from an entity whose principal is also an investor of the Company. Rent paid including common area maintenance and real estate taxes for the location was $199 and $151 in 2023, and 2022, respectively.

The Company engages one of its director's law firm for services for the Company. The firm was paid $71 and $83 in 2023, and 2022, respectively.

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 Company'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 Company'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 Company'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 Company'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 Company 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.

(dollars in thousands)

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, 2023 and 2022.

	Years Ended December 31, 2023	Years Ended December 31, 2022
Non-interest income		
In-scope of Topic 606:		
Service charges on deposits	$ 521	$ 425
Other	295	293
Non-interest income (in scope of Topic 606)	816	718
Non-interest income (out of scope of Topic 606)	1,703	1,277
Total non-interest income	$ 2,519	$ 1,995

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 Company's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023, and December 31, 2022, the Company did not have any contract balances.

Contract Acquisition Costs

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

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Abraham M. Penzer
Vice Chairman

Michael Merkin
Corporate Secretary

Eliezer Weinman
Assistant Corporate Secretary

Donald Mindiak
President & Chief Executive Officer

Salvatore Alfieri

Gershon Biegeleisen

Patrick Carabellese

Karen Kitzis

Benedict Romeo

Aaron Sussman

Mario Valente

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Michael Merkin
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Human Resources Officer

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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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First Vice President
Loan Administration

Naqi A. Naqvi
First Vice President
Chief Accounting Officer

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NOTES

Allentown Branch
40 North Main Street
Allentown, NJ 08501
Phone: 609-259-2040
Fax: 609-259-4050

Bordentown Branch
789 Farnsworth Avenue
Bordentown, NJ 08505
Phone: 609-298-0099
Fax: 609-291-5684

Closter Branch
530 Piermont Road
Closter, NJ 07624
Phone: 201-767-9995
Fax : 201-767-4025

Englewood Branch
44 Engle Street
Englewood, NJ 07631
Phone: 201-871-6900
Fax: 201-871-6903

Fairfield Branch
280 Passaic Avenue
Fairfield, NJ 07004
Phone: 973-276-0200
Fax: 973-276-0203

Freehold Branch
118A Schanck Road
Freehold, NJ 07728
Phone: 732-431-0700
Fax: 732-431-0730

First Commerce Bancorp,Inc.

Jackson Branch
2080 West County Line
Road, Unit C9
Jackson, NJ 08527
Phone: 732-730-7223
Fax: 732-638-4566

Lakewood Branch
105 River Avenue
Lakewood, NJ 08701
Phone: 732-364-0032
Fax: 732-364-0042

Montvale Branch
101 Chestnut Ridge Road
Montvale, NJ 07645
Phone: 201-391-6000
Fax: 201-391-6003

Robbinsville Branch
1412 Route 130 Building C
East Windsor, NJ 08520
Phone: 609-443-9600
Fax: 609-443-4276

Teaneck Branch
1008 Teaneck Road
Teaneck, NJ 07666
Phone: 201-530-0700
Fax: 201-530-0900

First Commerce Bancorp, Inc.

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