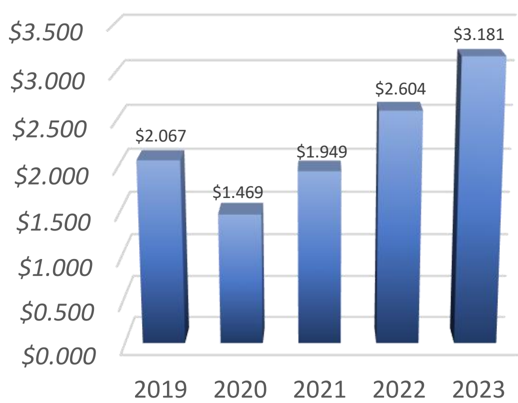
2023
Annual Report



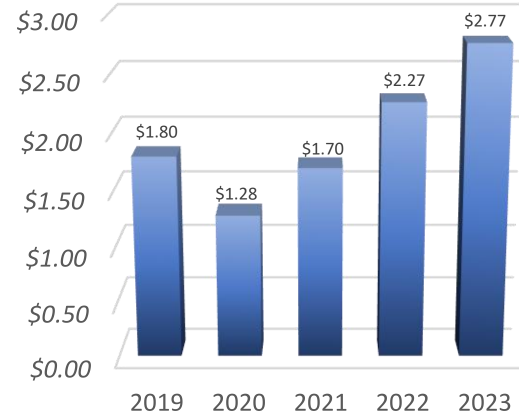

Elmer Bancorp, Inc.

Elmer Bancorp, Inc.
2019 – 2023 Financial Highlights

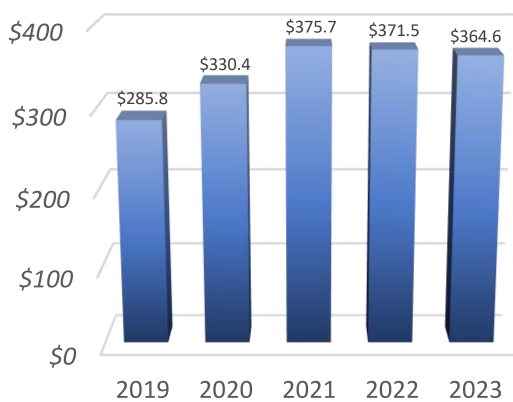
Net Income
(in millions)



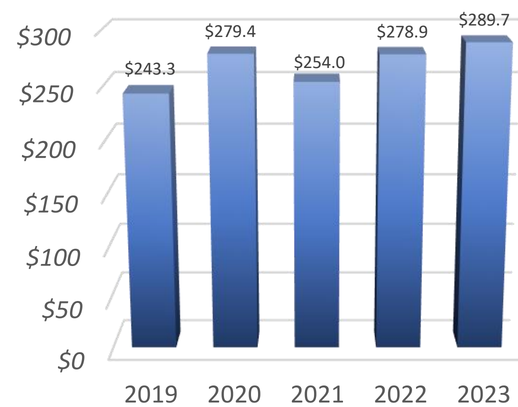
Earnings Per Share



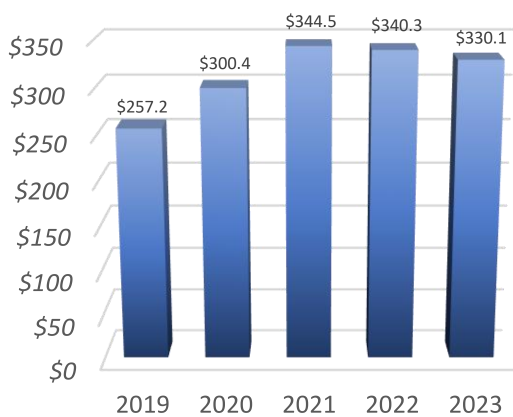
Total Assets
(in millions at December 31)



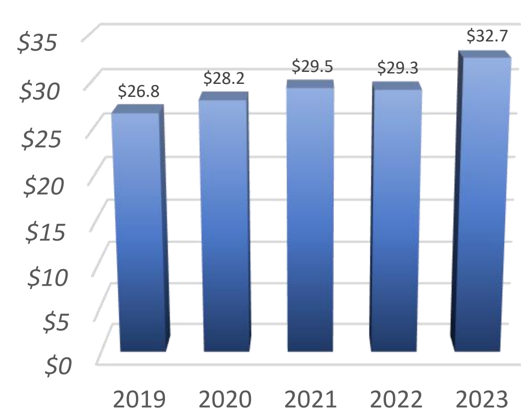
Total Loans
(in millions at December 31)



Total Deposits
(in millions at December 31)



Shareholders' Equity
(in millions at December 31)



ELMER BANCORP, INC.

April 29, 2024

To Fellow Shareholders:

Across the communities we serve, 2023 was another year of notable challenges. Inflation rates, regional bank turmoil, extremely competitive deposit gathering pressures and a general unsettled geo-political scenario created barriers to overcome. While it was difficult to manage these market conditions, Elmer Bancorp, Inc. was able to generate record earnings in 2023, for the second consecutive year, a historical accomplishment.

Net income for 2023 was $3.181 million, an increase of $577,000 from the December 31, 2022 total of $2.604 million. Earnings per common share rose to $2.77 per common share for the year ended December 31, 2023, compared to $2.27 per common share for the year ended 2022. Another remarkable achievement that had a significant impact on earnings was our loan balances that were the highest in the history of our bank. This resulted in interest income on loans of $14.017 million, an increase of $2.160 million from the December 31, 2022 total of $11.857 million. Net income in 2023 was also affected by higher employment costs, data processing costs, Other Real Estate Owned ("OREO") expenses and other miscellaneous expenses.

Elmer Bancorp's total assets at December 31, 2023 were $364.6 million, a decrease of $6.9 million from the December 31, 2022 total of $371.5 million. Excluding $14.4 million in overnight funds from a large temporary deposit, total core assets at December 31, 2023 were $21.3 million lower than December 31, 2022. Total loans were $289.7 million at December 31, 2023, a record high, and an increase of $10.8 million from the December 31, 2022 total of $278.9 million. The increase in loans was more than offset by a decrease in overnight investments of $17.0 million and investment securities of $2.7 million year-over-year.

Deposits totaled $330.1 million at December 31, 2023 compared to $340.3 million at December 31, 2022, a decrease of $10.2 million. Total core deposits (excluding the $14.4 million large temporary deposit) totaled $315.7 million, a decrease of $24.6 million over December 31, 2022. This decrease in deposits is the result of the highly competitive interest rate environment as well as our deposit totals continuing to adjust to pre-pandemic levels. Shareholders' equity at December 31, 2023 totaled $32.7 million compared to $29.3 million at year-end 2022, an increase of $3.4 million. Book value per share at December 31, 2023 was $28.62 per common share compared to $25.45 per common share at year-end 2022.

We continue to enhance our offerings and deliver innovative solutions to meet the evolving needs of our valued clients. In May, we introduced Apple/Google/Samsung Pay which offers a safer and more convenient way to pay as well as completed a multifactor authentication for electronic banking products. In July, we introduced Zelle, a fast and easy way to send and receive money. During the year, we performed multiple upgrades to our IT infrastructure and completed renovations at both our Main and Harding branches.

As we enter the new year, we are pleased with our financial results and the progress we continue to make in developing and augmenting our infrastructure, products and services. We wish to thank all of our team members, our clients, and shareholders for their continued support and loyalty as we look forward to another successful year in 2024.

Respectfully,

P. Scott Boyer
Chairman of the Board

Brian W. Jones
President & Chief Executive Officer

Elmer Bancorp, Inc. and Subsidiaries Board of Directors

Seated left to right: P. Scott Boyer, Chairman of the Board; Brian W. Jones, Director; Robert A. Woodruff, Jr., Vice Chairman of the Board; Standing left to right: David F. Raczenbek, Director; John E. Rafter, Director; David B. Bostwick, Director; Not pictured: Donald R. Blew, Director

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SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Elmer Bancorp, Inc.
Elmer, New Jersey

Opinion

We have audited the accompanying consolidated financial statements of Elmer Bancorp, Inc. and subsidiaries (the "Bank"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 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 Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
April 29, 2024

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 4,308,427	$ 3,754,190
Interest-bearing deposits with other institutions	72,515	86,868
Federal funds sold	34,871,000	51,897,000
Total cash and cash equivalents	39,251,942	55,738,058
Investment in interest-earning time deposits	-	2,000,000
Securities available for sale, at fair value	23,517,872	24,244,357
Restricted stock, at cost	425,500	388,600
Loans receivable, net of allowance for credit losses of $4,083,106 in 2023 and $4,379,349 in 2022	285,656,266	274,510,080
Bank-owned life insurance (BOLI)	7,370,583	7,172,175
Premises and equipment, net	3,838,452	3,960,983
Other real estate owned (OREO)	1,269,000	-
Deferred income taxes	1,951,552	2,354,771
Accrued interest receivable	834,192	774,969
Other assets	467,146	386,062
TOTAL ASSETS	$ 364,582,505	$ 371,530,055
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 110,972,452	$ 111,749,925
Savings, NOW, and money market deposits	169,077,856	185,640,148
Interest-bearing time deposits	50,012,062	42,939,569
Total deposits	330,062,370	340,329,642
Accrued interest payable	63,833	21,858
Accrued expenses and other liabilities	1,734,082	1,881,576
TOTAL LIABILITIES	331,860,285	342,233,076
SHAREHOLDERS' EQUITY		
Common stock, $0.10 par value; 3,000,000 shares authorized; 1,219,680 shares issued; outstanding 1,143,209 shares at December 31, 2023, and 1,151,202 shares at December 31, 2022	121,968	121,968
Additional paid-in capital	568,709	584,269
Retained earnings	36,165,285	33,361,733
Accumulated other comprehensive loss	(1,888,288)	(2,652,357)
Treasury stock at cost: 76,741 shares at December 31, 2023, and 68,478 shares at December 31, 2022	(2,245,454)	(2,118,634)
TOTAL SHAREHOLDERS' EQUITY	32,722,220	29,296,979
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 364,582,505	$ 371,530,055

See accompanying notes to consolidated financial statements

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2023	Years Ended December 31, 2022
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 14,016,946	$ 11,857,238
Securities available for sale	361,134	366,662
Interest on federal funds sold	1,989,590	1,312,655
Interest-bearing deposits with other institutions	21,443	25,876
Total interest and dividend income	16,389,113	13,562,431
INTEREST EXPENSE		
Deposits	1,393,072	767,178
Total interest expense	1,393,072	767,178
NET INTEREST INCOME	14,996,041	12,795,253
Provision for (release of) credit losses	5,357	(173,850)
NET INTEREST INCOME AFTER PROVISION FOR (RELEASE OF) CREDIT LOSSES	14,990,684	12,969,103
NONINTEREST INCOME		
Service charges on deposit accounts	346,277	352,389
Other service charges and fees	474,349	450,421
Increase in cash surrender value of BOLI	198,408	191,148
Net gain on sale of OREO	-	2,115
Other income	6,734	46,462
Total noninterest income	1,025,768	1,042,535
NONINTEREST EXPENSE		
Salaries and employee benefits	6,661,236	6,189,293
Occupancy and equipment expense, net	1,331,329	1,247,068
Data processing	1,194,748	1,063,171
Federal insurance premiums	274,146	292,693
Professional fees	363,213	387,451
Telecommunications	199,681	202,247
OREO expenses	105,585	11,919
Other expense	1,428,631	999,325
Total noninterest expense	11,558,569	10,393,167
Income before income tax expense	4,457,883	3,618,471
Income tax expense	1,276,500	1,014,400
NET INCOME	$ 3,181,383	$ 2,604,071
EARNINGS PER SHARE:		
Basic	$ 2.77	$ 2.27
Diluted	$ 2.77	$ 2.27
Weighted-average basic shares outstanding	1,147,986	1,147,678
Weighted-average diluted shares outstanding	1,149,225	1,149,383

See accompanying notes to consolidated financial statements

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2023	2022
Net income	$ 3,181,383	$ 2,604,071
Other comprehensive income (loss):		
Investment securities available for sale:		
Net unrealized income (loss) on investment securities available for sale	812,753	(3,122,846)
Tax effect	(170,678)	655,798
Net of tax effect	642,075	(2,467,048)
Post-retirement plan adjustment:		
Net unrealized gain on post-retirement plan	167,995	169,411
Tax effect	(34,914)	(35,604)
Reclassification adjustment for net gains recognized in net income	(14,496)	-
Tax effect	3,409	-
Net of tax effect	121,994	133,807
Total other comprehensive income (loss)	764,069	(2,333,241)
Total comprehensive income	$ 3,945,452	$ 270,830

See accompanying notes to consolidated financial statements

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2023 AND 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance, December 31, 2021	$ 121,968	$ 603,320	$ 31,218,143	$ (319,116)	$ (2,158,083)	$ 29,466,232
Net income	-	-	2,604,071	-	-	2,604,071
Cash dividends declared – $0.40 per share	-	-	(460,481)	-	-	(460,481)
Other comprehensive loss	-	-	-	(2,333,241)	-	(2,333,241)
Issuance of restricted stock (1,275 shares)	-	(39,449)	-	-	39,449	-
Restricted stock compensation expense	-	20,398	-	-	-	20,398
Balance, December 31, 2022	121,968	584,269	33,361,733	(2,652,357)	(2,118,634)	29,296,979
Net income	-	-	3,181,383	-	-	3,181,383
Cumulative effect of adoption of ASU 2016-13	-	-	221,724	-	-	221,724
Cash dividends declared – $0.52 per share	-	-	(599,555)	-	-	(599,555)
Other comprehensive income	-	-	-	764,069	-	764,069
Issuance of restricted stock (1,275 shares)	-	(39,449)	-	-	39,449	-
Purchase of treasury stock (9,268 shares)	-	-	-	-	(166,269)	(166,269)
Restricted stock compensation expense	-	23,889	-	-	-	23,889
Balance, December 31, 2023	$ 121,968	$ 568,709	$ 36,165,285	$ (1,888,288)	$ (2,245,454)	$ 32,722,220

See accompanying notes to consolidated financial statements.

ELMER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
OPERATING ACTIVITIES		
Net income	$ 3,181,383	$ 2,604,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	343,844	293,210
Provision for (release of) credit losses	5,357	(173,850)
Investment securities amortization, net	127,453	145,649
Loan origination fees accretion, net	(294,976)	(400,664)
Deferred income taxes	70,826	(16,224)
Net gain on sale of OREO	-	(2,115)
Restricted stock compensation expense	23,889	20,398
Write-down of foreclosed real estate, net	85,182	-
Write-down of premises and equipment, net	279,120	-
Increase in accrued interest receivable	(59,223)	(114,932)
Increase (decrease) in accrued interest payable	41,975	(4,153)
Increase in cash surrender value of BOLI	(198,408)	(191,148)
Other, net	(22,972)	570,891
Net cash provided by operating activities	3,583,450	2,731,133
INVESTING ACTIVITIES		
Proceeds from maturities of investments in interest-earning time deposits	2,000,000	-
Purchases of investments in interest-earning time deposits	-	(2,000,000)
Investment securities available for sale:		
Proceeds from maturities, calls, and repayment of principal	1,411,787	2,185,156
Purchases of regulatory stock	(39,300)	(2,300)
Redemptions of regulatory stock	2,400	18,300
Increase in loans receivable, net	(11,910,924)	(24,613,825)
Proceeds from sales of OREO	-	144,515
Purchases of premises and equipment	(500,433)	(607,995)
Net cash used in investing activities	(9,036,470)	(24,876,149)
FINANCING ACTIVITIES		
Net decrease in deposits	(10,267,272)	(4,197,484)
Dividends paid on common stock	(599,555)	(460,481)
Purchase of treasury stock	(166,269)	-
Net cash used in financing activities	(11,033,096)	(4,657,965)
Decrease in cash and cash equivalents	(16,486,116)	(26,802,981)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	55,738,058	82,541,039
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 39,251,942	$ 55,738,058
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 1,351,097	$ 771,331
Income taxes	$ 1,359,000	$ 476,000
Loans transferred to OREO during the year	$ 1,354,182	$ 142,400

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Elmer Bancorp, Inc. (the "Corporation") is a bank holding company incorporated in the State of New Jersey.

The First National Bank of Elmer (the "Bank") operates under a national bank charter and provides a complete line of business and personal banking products. The Bank operates through its six full-service offices located in Cumberland, Gloucester and Salem counties in New Jersey, including its main office located at 10 South Main Street, Elmer, New Jersey. The majority of the Bank's activities are with customers located within Southern New Jersey. The Bank does not have any significant concentrations in any one industry or with any one customer.

The Bank faces significant competition in attracting deposits and originating loans. Our most direct competition for deposits historically has come from the many financial institutions operating in our market area, including commercial banks, savings banks, savings and loan associations, and credit unions, and, to a lesser extent, from other financial service companies, such as brokerage firms and insurance companies. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and is periodically examined by such regulatory authorities. As a consequence of the regulation of commercial banking activities, the Bank's business is particularly susceptible to future federal legislation and regulations.

Basis of Financial Statement Presentation

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP). A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows.

The accompanying consolidated financial statements include the accounts of Elmer Bancorp, Inc. and its wholly owned subsidiaries, The First National Bank of Elmer and First Elmer Investment Corporation. Since these consolidated financial statements are presented on a consolidated basis, the term "Corporation" as used herein may refer to Elmer Bancorp, Inc. individually as a bank holding company or inclusive of consolidated subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Certain prior period amounts may have been reclassified to conform to current year presentations. Such reclassifications had no effect on consolidated shareholders' equity or consolidated net income. In the opinion of management, all accounting entries and adjustments, including normal recurring accruals, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been made. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through the date of the issuance of the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Consolidated Statements of Financial Condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, fair value measurements, the valuation of other real estate owned, measurement of the defined benefit plan obligation, and the calculation of deferred tax assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of reporting the Consolidated Statements of Cash Flows, the Corporation considers cash and cash equivalents to include cash on hand, amounts due from banks, and interest-bearing bank balances with other institutions with original maturities of 90 days or less, and Federal funds sold.

Investment Securities

The Bank classifies investment securities as either available for sale (AFS) or held to maturity (HTM) and currently only holds AFS investment securities. Investment securities classified as AFS are carried at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of equity, net of related income tax effects. Investment securities classified as HTM are carried at cost, adjusted for amortization of premium and accretion of discount over the term of the related investments, using the interest method. Investment securities are classified as HTM when management has the positive intent and ability to hold them to maturity. Gains and losses on sales of investment securities are recognized upon realization utilizing the specific identification method. Declines in the fair value of HTM and AFS securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. See Note 2 and Note 3 for additional information.

Allowance for Credit Losses – Available-for-Sale Securities (Under ASC 326)

The Bank measures expected credit losses on available-for-sale debt securities when the Bank does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before 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. For available-for-sale debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank considers the extent to which fair value is less than amortized cost, 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 evaluation 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 losses is recorded for the credit loss, equal to 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.

The allowance for credit losses on available-for-sale debt securities is included within securities available for sale on the Consolidated Statements of Financial Condition. Changes in the allowance for credit losses are recorded within the provision for credit losses on the Consolidated Statements of Income. Losses are charged against the allowance when the Bank believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale securities totaled $81,203 at December 31, 2023, and is included within accrued interest receivable on the Consolidated Statements of Financial Condition. This amount is excluded from the estimate of expected credit losses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Losses – Available-for-Sale Securities – (Prior to ASC 326)

The Bank adopted Accounting Standards Update (ASU) No. 2016-13 effective January 1, 2023. Consolidated financial statement amounts related to securities available for sale recorded as of December 31, 2022, and for the period ended December 31, 2022, are presented in accordance with the accounting policies described in the following sections.

One of the significant estimates related to AFS securities is the evaluation of investments for other-than-temporary impairments. If a determination is made that a debt security is other-than-temporarily impaired, the Bank will estimate the amount of the unrealized loss that is attributable to credit factors and all other noncredit-related factors. The credit-related component will be recognized as an other-than-temporary impairment charge in noninterest income as a component of gain (loss) on securities, net. The noncredit related component will be recorded as an adjustment to accumulated other comprehensive income, net of tax.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risk and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads, and the expected recovery period.

On a quarterly basis, the Bank evaluates the securities portfolio for other-than-temporary impairment. Securities that are in an unrealized loss position are reviewed to determine if an other-than-temporary impairment is present based on certain quantitative factors. The primary factors considered in evaluating whether a decline in value is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating, and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, and (d) whether the Bank intends to sell the security and whether it is more likely than not that the Bank will not be required to sell the security.

Restricted Stock

The Bank owns restricted stock investments in the Federal Home Loan Bank of New York (FHLB), the Federal Reserve Bank of Philadelphia (FRB), and the Atlantic Community Bankers Bank (ACBB). These restricted stocks are reflected on the Consolidated Statements of Financial Condition at cost. At December 31, 2023, the Bank held $321,800 in stock at FHLB, $23,700 in stock at FRB, and $80,000 in stock at ACBB. At December 31, 2022, the Bank held $284,900 in stock at FHLB, $23,700 in stock at FRB, and $80,000 in stock at ACBB.

Under the Bank's membership agreement with the FHLB, required stock purchases are based on a percentage of outstanding borrowings and a percentage of unused borrowing capacity and may also include a percentage of assets sold to the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value.

These restricted stocks do not have a readily determinable fair value and, as such, are classified as restricted investment in bank stock, are carried at cost and evaluated for impairment, as necessary. The restricted stocks' value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. Management evaluated the restricted stocks and concluded that the restricted stocks were not impaired for the periods presented herein.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

The Bank provides mortgages, commercial loans, and consumer loans to individuals and businesses. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Southern New Jersey region. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans receivable, that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are generally reported at their outstanding principal balances adjusted for any charge-offs, net of unearned discount, allowance for credit losses and unearned loan fees. Unearned discounts on discounted loans are recognized as income over the contractual term of the loans using a method that approximates the interest method. For all other loans, interest is accrued daily on the outstanding principal balances. Loan origination fees are deferred and recognized as an adjustment of the yield on the related loans using the interest method.

The accrual of interest on mortgage, commercial loans, and consumer loans is discontinued at the time the loan is generally 90 days delinquent, unless the credit is well-secured and in the process of collection.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, depending on management's assessment of the collectability of principal and interest, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans (Under ASC 326)

The allowance for credit losses (ACL) is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans, to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers the Bank's historical loss experience, current conditions, and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics, and evaluation of loans that do not share risk characteristics with other loans.

The ACL is measured on a collective pool basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the allowance for credit losses using the residual life method: commercial, commercial real estate, construction and development, residential real estate, and consumer.

Historical credit loss experience is the basis for the estimation of expected credit losses. The Bank applies historical loss rates over the remaining lifetime of each pool of loans with similar risk characteristics. The historical loss rates are a mixture of Bank and peer data. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. The reasonable and supportable forecast adjustment is based on broader economic data including GDP, Home Price Index, Fed Funds rate, Treasury rate, housing starts, and unemployment rates. For periods beyond management's reasonable and supportable forecast, the Bank reverts to historical loss rates utilizing a straight-line method over a reversion period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Under ASC 326) (Continued)

The qualitative adjustments for current conditions are based upon changes in lending policies and procedures; nature and volume of the portfolio; experience and ability of lending staff; volume and severity of past-due, nonaccrual, and classified loans; quality of the Bank's loan review system; and the existence of and effects of concentrations of credit. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

The Bank has elected to exclude accrued interest receivable from the measurement of its ACL. Accrued interest receivable on loans totaled $752,989 at December 31, 2023, and was reported in accrued interest receivable on the Consolidated Statements of Financial Condition. When a loan is placed on nonaccrual status, any outstanding accrued interest is reversed against interest income.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and, therefore, should be individually assessed. The Bank evaluates all loans that meet the criteria of being 90 days or greater past due. The Bank individually evaluates such loans for credit loss and does not aggregate loans by major risk classifications. Specific reserves are established based on the following three acceptable methods measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral-dependent. The individual loan evaluations consist primarily of the fair value of collateral method because most of the loans are collateral-dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

A loan is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all classes of loans deemed collateral-dependent, the Bank elected the practical expedient to estimate expected credit losses based on the collateral's fair value, less cost to sell. Substantially all of the collateral consists of various types of business assets or real estate.

Allowance for Loan Losses (Prior to ASC 326)

The Bank adopted Accounting Standards Update (ASU) No. 2016-13 effective January 1, 2023. Consolidated financial statement amounts related to securities available for sale recorded as of December 31, 2022, and for the period ended December 31, 2022, are presented in accordance with the accounting policies described in the following sections.

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Prior to ASC 326) (Continued)

In determining the level of the allowance, the Bank categorizes the loan portfolio into various loan segments as follows:

- Consumer
- Residential real estate
- Commercial real estate
- Commercial
- Construction and development

The loan portfolio is further segmented by class for the purposes of monitoring delinquency status and risk rating (Special Mention, Substandard not Impaired, Substandard Impaired). Classes include the separation of the commercial real estate segment into non-owner occupied and owner occupied.

The allowance for loan losses consists of specific and general components and, at times, it may include an unallocated component. The specific component relates to impaired loans, which consist of commercial, commercial mortgage, commercial construction, and residential mortgage loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate these loans by major risk classifications. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value; or, as a practical matter in the case of a collateral dependent loan, the difference between the fair value of the collateral and the recorded amount of the loans. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis, generally at the fair value of the underlying collateral if the loan is collateral dependent. See Note 4 and Note 5 for additional information on the loan portfolio and the allowance for loan losses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Prior to ASC 326) (Continued)

Troubled debt restructurings occur when a creditor, for economic or legal reasons related to a debtor's financial condition, grants a concession to the debtor that it would not otherwise consider, such as:

- Reduction of the stated interest rate
- Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk
- Reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement

A concession does not include an insignificant delay or shortfall in contractually required principal or interest payments, which may arise depending on specific facts and circumstances from a borrower's temporary operational downturns or seasonal delays.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance-sheet credit exposures is adjusted through the provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated life.

Accounting Pronouncements Adopted in 2023

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance-sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, Accounting Standards Codification (ASC) 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023, for the Corporation. The results reported for periods beginning after January 1, 2023, are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Corporation adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and unfunded commitments. On January 1, 2023, the Corporation recorded a cumulative effect increase to retained earnings of $221,724, net of tax, of which a $236,860 decrease related to loans, and a $15,136 increase related to unfunded commitments.

The Corporation adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023, using the prospective transition approach, though no such changes had been recorded on the securities held by the Corporation as of the date of adoption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted in 2023 (Continued)

The impact of the change from the incurred loss model to the expected credit loss model is detailed below.

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
ACL on loans			
Commercial	$ 635,141	$ (429,212)	$ 205,929
Commercial real estate	1,932,635	633,740	2,566,375
Construction and development	399,205	(365,232)	33,973
Residential real estate	1,023,544	27,952	1,051,496
Consumer	73,054	148,698	221,752
Unallocated	315,770	(315,770)	-
Liabilities			
ACL for unfunded commitments	40,000	19,160	59,160
	$ 4,419,349	$ (280,664)	$ 4,138,685

During the year ended December 31, 2023, the Corporation adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and requires that the Corporation evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, *Receivables – Nonrefundable Fees and Other Costs*, and subjects entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were included in the collective loan segment pools.

Segment Reporting

As a community-oriented financial institution, substantially all of the Bank's operations involve the delivery of loan and deposit products to customers. The Bank makes operating decisions and assesses performance based on an ongoing review of these community banking operations, which constitute the only operating segment for financial reporting purposes.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance on a chosen group of employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The Bank is the owner of the pre-retirement split-benefit policies and, in accordance with FASB ASC Topic 325 *Investments in Insurance Contracts*, the amount recorded is the cash surrender value, which is the amount realizable. Income from the increase in cash surrender value of the policies is included in noninterest income on the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, the Bank would receive a death benefit, which would be recorded as noninterest income.

The Bank recognizes a liability and related compensation cost for an endorsement split-dollar life insurance arrangement that provides a benefit to specific employees. The amount recognized as a liability represents the present value of the post-retirement cost for the endorsement split-dollar life insurance policies.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Servicing Rights (MSR)

The Bank recognizes as a separate asset the rights to service mortgage loans, whether those rights are acquired through purchase or loan origination activities. MSR are amortized in proportion to and over the estimated period of net servicing income. The estimated fair value of MSR is determined through a discounted analysis of future cash flows, incorporating numerous assumptions including servicing income, servicing costs, market discount rates, prepayment speeds, and default rates. Impairment of the MSR is assessed on the fair value of those rights with any impairment recognized as a component of loan servicing fee income. The balance of the fee asset at December 31, 2023 and 2022, was $41,451 and $50,304 respectively. The amortization of the servicing rights totaled $8,853 and $10,439 for the years ended December 31, 2023 and 2022, respectively.

Other Real Estate Owned (OREO)

Real estate acquired as a result of foreclosure (including in-substance foreclosures), or by deed in lieu of foreclosure is classified as OREO and is initially recorded at the estimated fair market value, less the estimated cost to sell, at the date of foreclosure, thereby establishing a new cost basis. If the fair value declines subsequent to foreclosure, an OREO write-down is recorded through expense and the OREO balance is lowered to reflect the current fair value. Operating costs after acquisition are expensed. The historical average holding period for such properties is generally less than two years. At December 31, 2023, there were no residential real estate loans in the process of foreclosure. See Note 7 for additional information.

Premises and Equipment

Land is carried at cost. Buildings, improvements and equipment are stated at cost less accumulated depreciation. Depreciation of equipment is computed on the straight-line method over the assets' estimated useful lives. Buildings and improvements are depreciated over the estimated useful life of the improvement. The estimated useful lives for calculating depreciation are as follows:

Years	
Buildings and improvements	7–39
Furniture, fixtures, and equipment	3–12
Computer equipment	3–5

Maintenance and repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss, if applicable, is reflected in current operations. See Note 6 for additional information.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return the specific asset.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes related to temporary differences between book and tax bases of various accounts. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred tax assets and liabilities are reflected at income tax rates applicable to the period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Corporation files a consolidated federal tax return and individual component state tax returns as required by the current state tax code. See Note 12 for additional information.

Advertising Costs

Advertising costs are charged to expense in the year incurred. Advertising expenses totaled $143,615 and $98,864 for the years ended December 31, 2023 and 2022, respectively, which are included in other expenses on the Consolidated Statements of Income.

Off-Balance-Sheet Financial Instruments

Credit-related financial instruments. In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded. See Note 10 for additional information.

Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation'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. See Note 14 and Note 15 for additional information.

Retirement Plans

401(k) plan. Employees who are at least 21 years of age may elect to make "before tax" 401(k) contributions to the plan between 1 percent and 100 percent of compensation, up to $22,500. Eligibility is immediate upon hire. Employees who are at least 50 years of age may make additional "catch-up" contributions up to $7,500. The Bank will match 50 percent up to 6 percent of compensation deferred by eligible employees. Contributions vest based on the schedule of the plan. See Note 16 for additional information.

Defined benefit post-retirement plan. The Bank has an unfunded defined benefit post-retirement plan that provides life and health insurance benefits to retired individuals. Employees who retire at age 65 or older with a minimum of 25 years of service are eligible for payment of 100 percent of basic health care benefit premiums. The level of benefits paid will continue at the same level as prior to retirement (i.e., employee/spouse coverage). Additionally, optional coverage may be obtained at the expense of the former employee. The plan is reviewed annually and may be modified or terminated at the discretion of the Board of Directors. The Board of Directors voted to change the plan effective January 1, 2009, so that only current retirees and current employees hired before June 30, 1984, who retire at age 65 or after would be eligible under the medical plan provision and only current retirees would continue to receive the life insurance plan provision. Future retirees would no longer be eligible. See Note 16 for additional information.

Restricted stock awards. Expense on restricted stock awards is based on the fair value of the shares on the grant date and is expensed on a straight-line basis over the vesting period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasury Stock

Stock held in the Treasury by the Corporation is accounted for using the cost method, which treats stock held in treasury as a reduction of total shareholders' equity. As shares of treasury stock are reissued, the shares are issued using the average cost basis of the shares in the treasury at the time of issuance.

Earnings per Common Share

Earnings per common share is computed by dividing net income available to common shareholders by the weighted-average basic and dilutive common shares outstanding.

	2023	2022
Basic earnings per share computation:		
Net income applicable to common stock	$ 3,181,383	$ 2,604,071
Weighted-average common shares outstanding	1,147,986	1,147,678
Earnings per share – basic	$ 2.77	$ 2.27
Diluted earnings per share computation:		
Net income applicable to common stock	$ 3,181,383	$ 2,604,071
Weighted-average common shares outstanding for basic earnings per share	1,147,986	1,147,678
Add: Dilutive effects of restricted stock	1,239	1,705
Weighted-average common shares outstanding for dilutive earnings per share	$ 1,149,225	$ 1,149,383
Earnings per share – dilutive	$ 2.77	$ 2.27

There were 3,375 and 3,775 shares of restricted stock outstanding during 2023 and 2022, respectively, that were included in the computation of diluted earnings per share as their effect was not anti-dilutive.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the Consolidated Statements of Financial Condition, such items, along with net income, are components of comprehensive income. See Note 18 for additional information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Under Topic ASC 606, the Bank applies the following steps when recognizing revenue from contracts with customers unless the revenue is related to a financial instrument and is scoped out of Topic 606: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when a performance obligation is satisfied. The Bank's contracts with customers are generally short term in nature, typically due within one year or less or cancellable by the Bank or the Bank's customer upon a short notice period. Performance obligations for the Bank's customer contracts are generally satisfied at a single point in time, typically when the transaction is complete, or over time. The Bank typically receives payment from customers and recognizes revenue concurrent with the satisfaction of our performance obligations. In most cases, this occurs within a single financial reporting period. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time as the performance obligations have been satisfied. In cases where the Bank has not received payment despite satisfaction of our performance obligations, an estimate of the amount due in the period our performance obligations have been satisfied is accrued.

Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with noninterest revenue resulting from investment securities gains, loans servicing, gains on loans sold, and earnings on BOLI are not within scope of this Topic. The main sources of noninterest income within the scope of the standard are service charges on deposit accounts and other service charges and fees. The Bank has contracts with its deposit customers where fees are charged if certain parameters are not met. These agreements can be cancelled at any time by either the Bank or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Bank has an unconditional right to the fee consideration. The Bank also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, online banking fees, interchange fees, ATM fees, and other transaction fees. All of these fees are attributable to specific performance obligations of the Bank where the revenue is recognized at a defined point in time upon the completion of the requested service/transaction.

Gains and losses on the sale of OREO are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Bank have been satisfied. Evidence of the buyer obtaining control of the asset include transfer of the property title, physical possession of the asset, and the buyer obtaining control of the risks and rewards related to the asset. If the Bank agrees to provide financing to facilitate the sale of OREO, additional analysis is performed to ensure that the contract for sale identifies the buyer and seller, the asset to be transferred, payment terms, and that the contract has a true commercial substance and that collection of amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is discounted impacting the gain/loss and the carrying value of the asset. The Bank does not make it a standard practice to provide the financing for OREO sales.

The Bank determined that the level of disaggregation of revenue as reported on the Consolidated Statements of Income provided a sufficient level of detail in order to properly analyze the significant revenue streams of the Bank and, therefore, no further disaggregation of any revenue streams within the scope of ASC 606 was considered to be necessary.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of investment securities are as follows as of December 31, 2023 and 2022:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale				
Debt securities:				
U.S. treasuries and government agency securities	$18,904,163	$ -	$ (1,799,622)	$17,104,541
State and municipal securities	1,526,193	539	(43,561)	1,483,171
Mortgage-backed securities	5,763,015	-	(832,855)	4,930,160
Total securities available for sale	$26,193,371	$ 539	$ (2,676,038)	$23,517,872

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available for sale				
Debt securities:				
U.S. treasuries and government agency securities	$19,132,176	$ -	$ (2,424,259)	$16,707,917
State and municipal securities	2,046,599	358	(73,705)	1,973,252
Mortgage-backed securities	6,553,834	-	(990,646)	5,563,188
Total securities available for sale	$27,732,609	$ 358	$ (3,488,610)	$24,244,357

At December 31, 2023, there was no allowance for credit losses on the investment securities available for sale.

U.S. treasuries and government agency securities, state and municipal securities and mortgage-backed securities with carrying values of $17,283,466 and $16,220,322 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and for other purposes required or permitted by laws.

The following is a schedule of maturities of investment securities available for sale at December 31, 2023. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Due within one year	$ -	$ -
Due after one year through five years	18,992,055	17,216,812
Due after five years through ten years	1,506,139	1,433,049
Due after ten years	5,695,177	4,868,011
Total	$ 26,193,371	$ 23,517,872

The Bank had no gross realized gains or losses recognized on the sale of investment securities during the years ended December 31, 2023 and 2022. No investment securities were transferred between classifications during 2023 or 2022.

NOTE 3 – UNREALIZED LOSSES ON INVESTMENT SECURITIES

The following table shows available-for-sale securities gross unrealized losses and fair value for which an allowance for credit losses has not been recorded, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022:

	December 31, 2023					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries and government agency securities	$ -	$ -	$17,104,541	$ (1,799,622)	$ 17,104,541	$ (1,799,622)
State and municipal securities	-	-	1,032,632	(43,561)	1,032,632	(43,561)
Mortgage-backed securities	-	-	4,930,160	(832,855)	4,930,160	(832,855)
Total	$ -	$ -	$23,067,333	$ (2,676,038)	$ 23,067,333	$ (2,676,038)

	December 31, 2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries and government agency securities	$ 627,589	$ (51,269)	$16,080,328	$ (2,372,990)	$ 16,707,917	$ (2,424,259)
State and municipal securities	1,457,894	(73,705)	-	-	1,457,894	(73,705)
Mortgage-backed securities	700,985	(60,549)	4,862,203	(930,097)	5,563,188	(990,646)
Total	$ 2,786,468	$ (185,523)	$20,942,531	$ (3,303,087)	$ 23,728,999	$ (3,488,610)

At December 31, 2023, the Bank had 12 U.S. treasury and government agencies securities, 4 state and municipal securities, and 21 mortgage-backed securities that have been in a gross unrealized loss position for greater than 12 months. Unrealized losses have not been recognized into income because the issuers' bonds are of higher credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in the fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

NOTE 4 – LOANS

Loans receivable consist of the following:

	At December 31, 2023	At December 31, 2022
Commercial	$ 16,746,287	$ 17,798,265
Commercial real estate:		
Non-owner occupied	75,565,668	63,068,331
Owner occupied	77,874,758	77,946,981
Total commercial real estate	153,440,426	141,015,312
Construction and development	7,920,134	16,359,986
Residential real estate	103,003,322	97,719,392
Consumer	9,060,448	6,331,033
Loans receivable, gross	290,170,617	279,223,988
Less:		
Allowance for credit losses	(4,083,106)	(4,379,349)
Net deferred loan fees	(431,245)	(334,559)
Loans receivable, net	$ 285,656,266	$ 274,510,080

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest as of December 31, 2023, in accordance with ASC 326:

	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate:					
Non-owner occupied	6,900	-	6,900	-	6,900
Owner occupied	-	-	-	-	-
Construction and development	-	-	-	-	-
Residential real estate	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 6,900	$ -	$ 6,900	$ -	$ 6,900

NOTE 4 – LOANS (Continued)

Year-end nonaccrual loans, segregated by class of loans, were as follows in accordance with ASC 310:

	At December 31, 2022
Commercial	$ 495,370
Commercial real estate:	
Non-owner occupied	175,476
Owner occupied	832,396
Construction and development	-
Residential real estate	19,368
Consumer	-
Total nonaccrual loans	$ 1,522,610

The following table presents impaired loans as of December 31, 2022, in accordance with ASC 310:

December 31, 2022	Unpaid Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial	$ 498,491	$ 495,370	$ -	$ 495,370	$ -	$ 123,843	$ -
Commercial real estate:							
Non-owner occupied	3,009,882	2,888,002	97,928	2,985,930	9,118	3,044,518	137,634
Owner occupied	1,411,721	1,388,426	-	1,388,426	-	771,036	33,887
Construction and development	-	-	-	-	-	-	-
Residential real estate	827,845	823,895	-	823,895	-	1,331,836	41,836
Consumer	39,754	39,754	-	39,754	-	42,396	2,001
Total	$ 5,787,693	$5,635,447	$ 97,928	$5,733,375	$ 9,118	$ 5,313,629	$ 215,358

NOTE 4 – LOANS (Continued)

The following tables present loans by past-due status as of December 31, 2023 and 2022:

December 31, 2023	Current	30–59 Days Past Due	60–89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans
Commercial	$ 16,701,122	$ 45,165	$ -	$ -	$ 45,165	$ 16,746,287
Commercial real estate:						
Non-owner occupied	75,565,668	-	-	-	-	75,565,668
Owner occupied	77,874,758	-	-	-	-	77,874,758
Construction and development	7,920,134	-	-	-	-	7,920,134
Residential real estate	103,003,322	-	-	-	-	103,003,322
Consumer	9,037,506	-	22,942	-	22,942	$ 9,060,448
Total	$ 290,102,510	$ 45,165	$ 22,942	$ -	$ 68,107	$ 290,170,617

December 31, 2022	Current	30–59 Days Past Due	60–89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans
Commercial	$ 17,302,895	$ -	$ -	$ 495,370	$ 495,370	$ 17,798,265
Commercial real estate:						
Non-owner occupied	62,990,784	-	-	77,547	77,547	63,068,331
Owner occupied	77,114,585	-	-	832,396	832,396	77,946,981
Construction and development	16,359,986	-	-	-	-	16,359,986
Residential real estate	97,700,024	-	-	19,368	19,368	97,719,392
Consumer	6,304,787	26,246	-	-	26,246	6,331,033
Total	$ 277,773,061	$ 26,246	$ -	$ 1,424,681	$ 1,450,927	$ 279,223,988

The following tables represent credit exposures by internally assigned grades as of December 31, 2023 and 2022, for the commercial loan portfolio. The grading analysis evaluates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

The Bank's internally assigned grades are as follows: "Pass" loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. "Special Mention" loans have a potential weakness or risk exists, which could cause a more serious problem if not corrected. "Substandard" loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. "Loss" loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

NOTE 4 – LOANS (Continued)

December 31, 2023	Term Loans Amortized Costs Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial									
Risk Rating									
Pass	$ 2,712,079	$ 1,571,081	$ 4,436,278	$ 959,773	$ 810,129	$ 1,833,950	$ 2,413,189	$ -	$ 14,736,479
Special Mention	-	-	396,170	-	-	-	1,365,912	-	1,762,082
Substandard	247,726	-	-	-	-	-	-	-	247,726
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 2,959,805	$ 1,571,081	$ 4,832,448	$ 959,773	$ 810,129	$ 1,833,950	$ 3,779,101	$ -	$ 16,746,287
Commercial									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:									
Non-owner occupied									
Risk Rating									
Pass	$ 15,813,106	$ 11,765,793	$ 2,052,432	$ 10,083,906	$ 8,839,891	$ 21,618,866	$ 10,000	$ -	$ 70,183,994
Special Mention	-	-	-	-	2,654,645	2,720,129	-	-	5,374,774
Substandard	-	-	-	-	-	6,900	-	-	6,900
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 15,813,106	$ 11,765,793	$ 2,052,432	$ 10,083,906	$ 11,494,536	$ 24,345,895	$ 10,000	$ -	$ 75,565,668
Commercial real estate:									
Non-owner occupied									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:									
Owner occupied									
Risk Rating									
Pass	$ 6,887,714	$ 21,537,196	$ 7,322,021	$ 5,840,576	$ 12,347,667	$ 23,304,208	$ 138,774	$ -	$ 77,378,156
Special Mention	-	-	-	-	-	418,251	-	-	418,251
Substandard	-	-	-	-	-	78,351	-	-	78,351
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 6,887,714	$ 21,537,196	$ 7,322,021	$ 5,840,576	$ 12,347,667	$ 23,800,810	$ 138,774	$ -	$ 77,874,758
Commercial real estate:									
Owner occupied									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction and development									
Risk Rating									
Pass	$ 3,886,788	$ 4,030,225	$ -	$ -	$ -	$ 3,121	$ -	$ -	$ 7,920,134
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 3,886,788	$ 4,030,225	$ -	$ -	$ -	$ 3,121	$ -	$ -	$ 7,920,134
Construction and development									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total									
Risk Rating									
Pass	$ 29,299,687	$ 38,904,295	$ 13,810,731	$ 16,884,255	$ 21,997,687	$ 46,760,145	$ 2,561,963	$ -	$ 170,218,763
Special Mention	-	-	396,170	-	2,654,645	3,138,380	1,365,912	-	7,555,107
Substandard	247,726	-	-	-	-	85,251	-	-	332,977
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 29,547,413	$ 38,904,295	$ 14,206,901	$ 16,884,255	$ 24,652,332	$ 49,983,776	$ 3,927,875	$ -	$ 178,106,847

NOTE 4 – LOANS (Continued)

The following table presents the credit exposures by internally assigned grades for the year ended December 31, 2022, in accordance with ASC 310.

	Risk Ratings					
December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial	$ 15,383,091	$ 1,919,804	$ 495,370	$ -	$ -	$ 17,798,265
Commercial real estate:						
Non-owner occupied	62,892,855	-	175,476	-	-	63,068,331
Owner occupied	76,558,555	-	1,388,426	-	-	77,946,981
Construction and development	16,359,986	-	-	-	-	16,359,986
Total	$ 171,194,487	$ 1,919,804	$ 2,059,272	$ -	$ -	$ 175,173,563

The following table presents residential real estate and consumer performing and nonperforming loans based solely on payment activity for the period ended December 31, 2023, that have not been assigned an internal risk grade.

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	2019	Prior			Total
Residential real estate									
Payment Performance									
Performing	$ 15,076,378	$ 25,436,918	$ 15,112,543	$ 16,456,107	$ 8,751,138	$ 19,790,944	$ 1,900,381	$ -	$ 102,524,409
Nonperforming	-	-	-	-	-	478,913	-	-	478,913
Total	$ 15,076,378	$ 25,436,918	$ 15,112,543	$ 16,456,107	$ 8,751,138	$ 20,269,857	$ 1,900,381	$ -	$ 103,003,322
Residential real estate									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer									
Payment Performance									
Performing	$ 2,612,803	$ 1,432,123	$ 174,920	$ 607,749	$ 127,177	$ 727,337	$ 3,355,397	$ -	$ 9,037,506
Nonperforming	-	-	-	-	-	22,942	-	-	22,942
Total	$ 2,612,803	$ 1,432,123	$ 174,920	$ 607,749	$ 127,177	$ 750,279	$ 3,355,397	$ -	$ 9,060,448
Consumer									
Current period gross charge-offs	$ 2,170	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,170
Total									
Payment Performance									
Performing	$ 17,689,181	$ 26,869,041	$ 15,287,463	$ 17,063,856	$ 8,878,315	$ 20,518,281	$ 5,255,778	$ -	$ 111,561,915
Nonperforming	-	-	-	-	-	501,855	-	-	501,855
Total	$ 17,689,181	$ 26,869,041	$ 15,287,463	$ 17,063,856	$ 8,878,315	$ 21,020,136	$ 5,255,778	$ -	$ 112,063,770

The following table presents performing and nonperforming residential real estate loans and consumer loans based on payment activity for the year ended December 31, 2022, in accordance with ASC 310.

December 31, 2022	Performing	Nonperforming	Total
Residential real estate	$ 97,700,024	$ 19,368	$ 97,719,392
Consumer	6,331,033	-	6,331,033
Total	$ 104,031,057	$ 19,368	$ 104,050,425

NOTE 4 – LOANS (Continued)

There were modifications on two loans to borrowers experiencing financial difficulty totaling $31,899 during the year ended December 31, 2023.

There were no TDR loan modifications during 2022.

As of December 31, 2022, there are no commitments to lend additional funds to any borrower whose loan terms have been modified. As of December 31, 2022, the Bank did not have any loan modifications that subsequently defaulted. The allowance for loan losses related to TDR loans totaled $9,118 at December 31, 2022.

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES

The following summarizes activity related to the allowance for credit losses, by portfolio segment, for the years ended December 31, 2023 and 2022.

	For the Year ended December 31, 2023						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Balance, December 31, 2022	$ 635,141	$ 1,932,635	$ 399,205	$ 1,023,544	$ 73,054	$ 315,770	$ 4,379,349
Impact of adopting ASC 326	(429,212)	633,740	(365,232)	27,952	148,698	(315,770)	(299,824)
(Release of) provision for credit losses	43,544	(1,210,306)	125,753	937,382	108,984	-	5,357
Charge-offs	-	-	-	-	(2,170)	-	(2,170)
Recoveries	-	-	-	-	394	-	394
Balance, December 31, 2023	$ 249,473	$ 1,356,069	$ 159,726	$ 1,988,878	$ 328,960	$ -	$ 4,083,106

	For the Year ended December 31, 2022						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Balance, December 31, 2021	$ 589,722	$ 2,058,356	$ 580,971	$ 1,049,328	$ 58,570	$ 219,437	$ 4,556,384
(Release of) provision for loan losses	45,419	(82,776)	(181,766)	(25,784)	(25,276)	96,333	(173,850)
Charge-offs	-	(42,945)	-	-	(4,446)	-	(47,391)
Recoveries	-	-	-	-	44,206	-	44,206
Balance, December 31, 2022	$ 635,141	$ 1,932,635	$ 399,205	$ 1,023,544	$ 73,054	$ 315,770	$ 4,379,349

The large provision to the allowance for credit losses for commercial real estate and residential real estate during 2023 were driven by various changes in the recalculation of bank and peer historical losses as well as adjustments in the qualitative factors. The changes in the allowance for loan losses in 2022 were driven by a decrease in the qualitative factors and specific pandemic related reserves and a result of the economic and regulatory environment.

NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (Continued)

The Bank's recorded investment in loans as of December 31, 2022, related to each balance in the allowance for credit losses by portfolio segment and disaggregated based on the Bank's impairment methodology was as follows:

	At December 31, 2022						
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:							
Individually evaluated for impairment							
Collectively evaluated for impairment	$ -	$ 9,118	$ -	$ -	$ -	$ -	$ 9,118
Total	635,141	1,923,517	399,205	1,023,544	73,054	315,770	4,370,231
	$ 635,141	$ 1,932,635	$ 399,205	$ 1,023,544	$ 73,054	$ 315,770	$ 4,379,349
Loans:							
Individually evaluated for impairment	$ 495,370	$ 4,374,356	$ -	$ 823,895	$ 39,754	$ -	$ 5,733,375
Collectively evaluated for impairment	17,302,895	136,640,956	16,359,986	96,895,497	6,291,279	-	273,490,613
Total	$ 17,798,265	$ 141,015,312	$ 16,359,986	$ 97,719,392	$ 6,331,033	$ -	$ 279,223,988

NOTE 6 – PREMISES AND EQUIPMENT

The following is a summary of the cost and accumulated depreciation of premises and equipment.

	At December 31,	
	2023	2022
Land	$ 982,651	$ 1,261,771
Premises and improvements	6,746,404	6,507,942
Furniture, fixtures, and equipment	2,291,073	2,215,070
Total	10,020,128	9,984,783
Accumulated depreciation	(6,181,676)	(6,023,800)
Premises and equipment, net	$ 3,838,452	$ 3,960,983

Depreciation expense for the years ended December 31, 2023 and 2022, amounted to $343,844 and $293,210, respectively. Additionally, during 2023 the Company recorded a write-down on land due to an updated appraised value of $279,120.

NOTE 7 – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2023 and 2022, was approximately $9,823,233 and $4,717,756, respectively.

At December 31, 2023, the scheduled maturities of certificates of deposit and other time deposits are as follows:

2024	$ 38,782,567
2025	6,095,533
2026	2,679,553
2027	2,182,766
2028	271,643
Total	$ 50,012,062

NOTE 8 – BORROWING CAPACITY

The Bank entered into continuing lending agreements regarding advances with the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, and Atlantic Community Bankers Bank.

Under the Federal Reserve Bank agreement, the Bank can borrow overnight advances at the Federal Reserve discount window. Advances are payable on demand and include interest at the rate in effect when the advance is made. In addition, the Bank is required to pledge collateral as agreed upon. As of December 31, 2023 and 2022, the collateral value of the real estate loans pledged was $78,569,669 and $72,668,906, respectively, with no outstanding advances.

Under the Federal Home Loan Bank agreement, the Bank can borrow overnight advances with no mandatory pay down to zero within a certain number of days, but acknowledgment must be made daily to maintain a balance. As of December 31, 2023 and 2022, the collateral value of the real estate loans pledged was $10,930,664 and $9,540,502, with outstanding unadvanced guarantees of $7,400,000 and $0 for 2023 and 2022, respectively.

The Bank is eligible to borrow, based on pledged collateral, up to 30 percent of its total assets. As of December 31, 2023, the Bank has a maximum borrowing capacity with the Federal Home Loan Bank of approximately $109,374,752.

Under the Atlantic Community Bankers Bank agreement, the Bank can borrow overnight advances up to $4,000,000 with a mandatory pay down to zero within 14 days, with no collateral required. As of December 31, 2023 and 2022, the Bank had no outstanding advances.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES

Credit-Related Financial Instruments. To meet the financing needs of its customers in the normal course of business, the Bank is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total reserves for off-balance-sheet commitments at December 31, 2023 and 2022, were $59,160 and $40,000, respectively, which are included in accrued expenses and other liabilities in the Consolidated Statements of Financial Condition.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES (Continued)

The following financial instruments were outstanding whose contract amounts represent credit risk:

	At December 31,	
	2023	2022
Bounce overdraft account commitments	$ 1,534,511	$ 1,650,574
Unfunded commitments and lines of credit	31,907,470	30,986,001
Commercial and standby letter of credit	619,039	592,339
Total	$ 34,061,020	$ 33,228,914

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Unfunded commitments, available commercial lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may be either unsecured or contain collateral.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Most letters of credit have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary.

The Bank was not required to perform on any financial guarantees during the years ended December 31, 2023 and 2022. The Bank did not incur any losses on its commitments during the years ended December 31, 2023 or 2022.

NOTE 10 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The majority of the Bank's business activity is with customers located within the southern region of the State of New Jersey.

NOTE 11 – INCOME TAXES

The provision for income taxes consists of:

	For the Years Ended December 31, 2023	2022
Federal:		
Current	$ 664,860	$ 676,218
Deferred	127,640	(47,018)
	792,500	629,200
State:		
Current	540,814	354,406
Deferred	(56,814)	30,794
	484,000	385,200
Total	$ 1,276,500	$ 1,014,400

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, are as follows:

	At December 31, 2023	2022
Deferred tax assets (liabilities):		
Allowance for credit losses	$ 1,242,680	$ 1,313,805
Deferred loan fees	216,818	183,775
Nonaccrual loan interest	-	547
Post-retirement benefits	159,192	137,720
Accumulated depreciation	(217,112)	6,870
Net unrealized loss on securities available for sale	561,855	732,533
Other	(11,881)	(20,479)
Net deferred tax assets	$ 1,951,552	$ 2,354,771

No valuation allowance was established at December 31, 2023, in view of certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Corporation's earnings potential.

The following is a reconciliation of the Corporation's effective income tax rate:

	For the Years Ended December 31, 2023		2022	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Provision at statutory rate	$ 936,156	21.0 %	$ 759,879	21.0 %
State income tax expense	382,360	8.6	304,308	8.4
Tax-exempt interest	(10,811)	(0.2)	(11,839)	(0.4)
BOLI income	(41,666)	(0.9)	(40,141)	(1.1)
Other, net	10,461	0.2	2,193	0.1
Actual income tax expense and effective rate	$ 1,276,500	28.70 %	$ 1,014,400	28.0 %

NOTE 11 – INCOME TAXES (Continued)

Management evaluated the Corporation's tax position and concluded that the Corporation had taken no uncertain tax positions that require adjustments to the consolidated financial statements to comply with the provisions of this guidance. Consequently, no accrual for interest and penalties was deemed necessary for the year ended December 31, 2023. The Corporation files tax returns in the U.S. federal jurisdiction and the State of New Jersey. Generally, the Corporation is no longer subject to income tax examinations by the U.S. federal tax authorities for years before December 31, 2020, and by New Jersey tax authorities for years before December 31, 2019.

NOTE 12 – RELATED PARTIES

The Bank has transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The Bank held deposits of $2,509,303 and $3,241,735 for related parties at December 31, 2023 and 2022, respectively. During 2023 and 2022, interest paid by the Bank on these deposits amounted to $2,800 and $4,249, respectively.

A summary of the activity on related-party loans, comprised of directors and executive officers and their related companies, consist of the following:

	For the Years Ended December 31,	
	2023	2022
Balance at beginning of year	$ 122,355	$ 175,648
Additions	54,446	1,496,900
Repayments	(78,018)	(1,550,193)
Balance at end of year	$ 98,783	$ 122,355

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and due from banks, interest-bearing deposits with other institutions, federal funds sold, investment in interest-earning time deposits, bank-owned life insurance, restricted stock, and accrued interest: The carrying amounts of these financial instruments approximate their fair value and are considered Level I measurements.

The estimated fair values and related carrying amounts of the Bank's remaining financial instruments not carried at fair value on a recurring basis are as follows:

	At December 31, 2023				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Loans receivable, net	$ 285,656,266	$ 269,172,183	$ -	$ -	$ 269,172,183
Financial liabilities:					
Deposits	$ 330,062,370	$ 328,766,869	$ 280,050,308	$ -	$ 48,716,561

	At December 31, 2022				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Loans receivable, net	$ 274,844,640	$ 271,462,184	$ -	$ -	$ 271,462,184
Financial liabilities:					
Deposits	$ 340,329,642	$ 338,333,999	$ 297,390,073	$ -	$ 40,943,926

The fair value of the Company's financial instruments is influenced by a number of factors, which include changes in the expected duration of the instruments, the contractual interest rates of our products as well as the discount rate used to calculate fair value. During the year ended December 31, 2023, the fair values reflected above were primarily affected by increases in the discount rate assumptions (which decreases an asset's fair value). Those discount rate changes reflect the sustained elevation in market interest rates on similar products, which have increased at a rate that exceeded the repricing of certain loans within our portfolio. Additionally, the fair values above were influenced by changes in prepayment assumptions based on expected customer behavior that is also the result of the current interest rate environment.

NOTE 14 – FAIR VALUE MEASUREMENT

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

The Bank has measured impairment on impaired loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property, which are also included in the net realizable value. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for loan losses or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a Level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the table below as it is not currently being carried at its fair value.

OREO properties are recorded at the estimated fair market value, less the estimated cost to sell, at the date of foreclosure. Fair market value is determined as described above. At December 31, 2022, there were no OREO properties held on the Consolidated Statements of Financial Condition.

NOTE 14 – FAIR VALUE MEASUREMENT (Continued)

The following tables present the assets reported on the Consolidated Statements of Financial Condition at their fair value as of December 31, 2023 and 2022, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	At December 31, 2023			
	Level I	Level II	Level III	Total
Assets measured at fair value on a recurring basis:				
Investment securities available for sale:				
U.S. government agencies	$ -	$17,104,541	$ -	$17,104,541
State and municipal securities	-	1,483,171	-	1,483,171
Mortgage-backed securities	-	4,930,160	-	4,930,160
Assets measured at fair value on a nonrecurring basis:				
Other real estate owned	$ -	$ -	$ 1,269,000	$ 1,269,000

	At December 31, 2022			
	Level I	Level II	Level III	Total
Assets measured at fair value on a recurring basis:				
Investment securities available for sale:				
U.S. government agencies	$ -	$16,707,917	$ -	$16,707,917
State and municipal securities	-	1,973,252	-	1,973,252
Mortgage-backed securities	-	5,563,188	-	5,563,188
Assets measured at fair value on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 88,810	$ 88,810

NOTE 14 – FAIR VALUE MEASUREMENT (Continued)

The following tables provide a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2023 and 2022:

	At December 31, 2023				
	Quantitative Information About Level III Fair Value Measurements				
	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Other Real Estate Owned	$1,269,000	Appraisal of collateral	Appraisal adjustments	17%	17%

	At December 31, 2022				
	Quantitative Information About Level III Fair Value Measurements				
	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 88,810	Appraisal of collateral	Appraisal adjustments	17%	17%

NOTE 15 – EMPLOYEE BENEFITS

401k Plan

For the years ended December 31, 2023 and 2022, expense attributed to the 401k plan amounted to $102,094 and $120,970, respectively.

Defined Benefit Plan

The following table sets forth the change in plan assets and benefit obligation.

	For the Years Ended December 31,	
	2023	2022
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 753,384	$ 944,097
Service cost	1,704	2,260
Interest cost	38,148	27,544
Actuarial gain	(167,995)	(169,411)
Benefits paid	(45,482)	(51,106)
Projected benefit obligation at end of year	$ 579,759	$ 753,384
Change in plan assets:		
Contributions	$ 45,482	$ 51,106
Benefits paid	(45,482)	(51,106)
Funded status at end of year	$ (579,759)	$ (753,384)
Amounts recognized in Statements of Financial Condition:		
Current liabilities	$ (42,966)	$ (53,489)
Noncurrent liabilities	(536,793)	(699,895)
	$ (579,759)	$ (753,384)
Amounts recognized in accumulated other comprehensive loss consist of:		
Net gain	$ (284,506)	$ (131,007)
Accumulated other comprehensive loss	$ (284,506)	$ (131,007)

The accumulated benefit obligation was $579,759 and $753,384 at December 31, 2023 and 2022, respectively.

NOTE 15 – EMPLOYEE BENEFITS (Continued)

Components of Net Periodic Benefit Cost

The following are the components of net periodic benefit cost:

	For the Years Ended December 31, 2023	For the Years Ended December 31, 2022
Net periodic benefit cost:		
Service cost	$ 1,704	$ 2,260
Interest cost	38,148	27,544
Amortization of unrecognized gain	(14,496)	-
Net periodic benefit cost	$ 25,356	$ 29,804

Assumptions

The following are weighted-average assumptions used to determine benefit obligations:

	At December 31, 2023	At December 31, 2022
Weighted-average assumptions (end of year):		
Discount rate	5.00%	5.25%

The following are weighted-average assumptions used to determine net periodic benefit cost:

	For the Years Ended December 31, 2023	For the Years Ended December 31, 2022
Weighted-average assumptions (beginning of year):		
Discount rate	5.25%	3.00%
Amortization period – gains and losses (years)	3.84	5.03
Amortization periods – plan amendments (years)	2.00	3.00
First year trend rate	6.50%	6.50%
Ultimate trend rate	5.00%	5.00%
Year rate reaches the ultimate trend rate	2029	2028

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets, as well as future rates expected to be returned.

Expected future benefit payments for the fiscal years ending:

2024	$ 42,966
2025	44,455
2026	45,720
2027	46,719
2028	47,413
2029-2033	234,655
Total	$ 461,928

NOTE 15 – EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan

The Corporation maintains a Restricted Stock Plan (the Plan) whereby certain employees are eligible to receive awards of restricted stock based upon performance related requirements. Awards granted under the Plan are in the form of the Corporation's common stock and may be subject to certain vesting requirements including in the case of employees, continuous employment, or service with the Corporation. The Plan assists the Corporation in attracting, retaining, and motivating employees to make substantial contributions to the success of the Corporation and to increase the emphasis on the use of equity as a key component of compensation. The following table details the vesting, awarding, and forfeiting of unearned restricted shares during 2023:

	Shares	Weighted-Average Cost
Nonvested Shares, Beginning of Year	3,775	16.94
Granted	1,275	18.75
Forfeited	-	-
Vested	(1,675)	14.71
Nonvested Shares, End of Year	3,375	18.72

Compensation cost related to restricted stock is recognized based on the market price of the stock at the grant date over the vesting period. Compensation expense related to restricted stock was $23,888 and $20,398 for the years ended December 31, 2023 and 2022, respectively. The per share weighted-average grant-date fair value of restricted shares granted during 2023 and 2022 was $18.75 and $19.75, respectively. At December 31, 2023, the total compensation cost related to nonvested awards that has not yet been recognized was $28,971, which is expected to be recognized over the next three years.

NOTE 16 – REGULATORY MATTERS

Loans

Federal law prevents the Corporation from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus. Loans or advances are limited to 15 percent of the Corporation's capital stock and surplus.

Dividends

The Bank is subject to a dividend restriction that generally limits the amount of dividends that can be paid by a national bank. Prior approval of the Office of the Comptroller of the Currency (OCC) is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus.

At December 31, 2023, the Bank's retained earnings available for the payment of dividends prior to regulatory approval was $4,779,017, plus 2024 net profits retained up to the date of the dividend declaration.

Capital Requirements

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it is subject.

NOTE 16 – REGULATORY MATTERS (Continued)

Capital Requirements (Continued)

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

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized", it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2023, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total risk-based capital, Common Equity Tier I (CET I) risk-based capital, and Tier I risk-based capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I leverage ratio (as defined) to average assets (as defined).

The actual capital amounts, ratios and regulatory guidelines for the Bank are as follows:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Risk-based capital ratios:						
Tier I risk-based capital	$ 34,502,455	13.25%	$ 15,620,700	6.00%	$ 20,827,600	8.00%
CET I risk-based capital	$ 34,502,455	13.25%	$ 11,715,525	4.50%	$ 16,922,425	6.50%
Total risk-based capital	$ 37,756,768	14.50%	$ 20,827,600	8.00%	$ 26,034,500	10.00%
Tier I leverage ratio	$ 34,502,455	9.60%	$ 14,382,476	4.00%	$ 17,978,095	5.00%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Risk-based capital ratios:						
Tier I risk-based capital	$ 31,843,067	12.48%	$ 15,307,551	6.00%	$ 20,410,068	8.00%
CET I risk-based capital	$ 31,843,067	12.48%	$ 11,480,663	4.50%	$ 16,583,180	6.50%
Total risk-based capital	$ 35,047,329	13.74%	$ 20,410,068	8.00%	$ 25,512,585	10.00%
Tier I leverage ratio	$ 31,843,067	8.34%	$ 15,266,087	4.00%	$ 19,082,609	5.00%

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive (income) loss for the years ended December 31, 2023 and 2022, is as follows:

	Accumulated Other Comprehensive Income (Loss)		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Total
Balance at December 31, 2021	$ (30,445)	$ (288,671)	$ (319,116)
Other comprehensive income (loss) before reclassifications	133,807	(2,467,048)	(2,333,241)
Reclassification adjustments:			
Post-retirement plan	-	-	-
Period change	133,807	(2,467,048)	(2,333,241)
Balance at December 31, 2022	103,362	(2,755,719)	(2,652,357)
Other comprehensive income before reclassifications	133,081	642,075	775,156
Reclassification adjustments:			
Post-retirement plan	(11,087)	-	(11,087)
Period change	121,994	642,075	764,069
Balance at December 31, 2023	$ 225,356	$ (2,113,644)	$ (1,888,288)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss):

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Year Ended: December 31, 2023	December 31, 2022	Affected Line Item in the Consolidated Statements of Income
Defined benefit pension plan [1]:			
Amortization of unrecognized gain	$ 14,496	$ -	Other expense
Related income tax expense	(3,409)	-	Income tax expense
Net effect on accumulated other comprehensive income (loss) for the period	11,087	-	
Total reclassifications for the period	$ 11,087	$ -	

(1) Included in the computation of net periodic pension cost. See Note 16, “Employee Benefits” for additional details.
(2) Amounts in parenthesis indicate credits.

NOTE 18 – SUBSEQUENT EVENTS

Management has reviewed events occurring through April 29, 2024, the date the consolidated financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

The First National Bank of Elmer Management

Seated left to right: Robert R. Bender, Executive Vice President/Chief Lending Officer; Brian W. Jones, President/Chief Executive Officer; Standing left to right: Matthew J. Haines, Senior Vice President/Chief Operating Officer; Cynthia L. Volk, Senior Vice President/Chief Financial Officer

ELMER BANCORP, INC. AND SUBSIDIARIES BOARD OF DIRECTORS

P. Scott Boyer	*Chairman of the Board*
Robert A. Woodruff, Jr.	*Vice Chairman of the Board*
Brian W. Jones	*President/Chief Executive Officer*
Donald R. Blew	*Director*
David B. Bostwick	*Director*
David F. Raczenbek	*Director*
John E. Rafter	*Director*

****

Barrie E. Foster	*Director Emeritus*
John G. Hoffman	*Director Emeritus*
Alan W. Newkirk	*Director Emeritus*
Henry D. DuBois, Jr.	*Director Emeritus*

ELMER BANCORP, INC. OFFICERS

P. Scott Boyer	*Chairman of the Board*
Robert A. Woodruff, Jr.	*Vice Chairman of the Board*
Brian W. Jones	*President/Chief Executive Officer*
Cynthia L. Volk	*Secretary/Treasurer*

THE FIRST NATIONAL BANK OF ELMER BANKING LOCATIONS

Elk Office – 494 Whig Lane, Glassboro, NJ

Elmer Office – 10 South Main Street – Elmer, NJ

Harding Office – 130 Harding Highway, Upper Pittsgrove, NJ

Pittsgrove Office – 806 Centerton Road, Pittsgrove Township, NJ

Upper Deerfield Office – 1168 State Highway 77, Upper Deerfield, NJ

Woodstown Office – 11 Bailey Street, Pilesgrove, NJ

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THE FIRST NATIONAL BANK OF ELMER OFFICERS

Brian W. Jones	*President/Chief Executive Officer*
Robert R. Bender	*Executive Vice President/Chief Lending Officer*
Matthew J. Haines	*Senior Vice President/Chief Operating Officer*
Cynthia L. Volk	*Senior Vice President/Chief Financial Officer*
Timothy K. Anderson	*Vice President/Commercial Loan Officer*
Kevin C. Cunningham	*Vice President/Retail Lending Officer*
Ray C. Garcia	*Vice President/Commercial Loan Officer*
Anthony M. Marino	*Vice President/Commercial Loan Officer*
Michael A. Penk	*Vice President/Commercial Loan Officer*
Trevor A. Watson	*Vice President/Commercial Loan Officer*
Mark A. DiRugeris, Sr.	*Vice President/Special Assets Relationship Manager*
Anthony R. Perugini	*Vice President/Senior Credit Analyst/Portfolio Manager*
Donna M. Dougherty	*Vice President/Deposit Operations Manager*
Raymond T. Glanville	*Vice President/Credit Administration Officer*
Christopher S. Greenfield	*Vice President/IT Operations Manager*
Melanie Prickett	*Vice President/Risk Officer*
Kim S. Robinson	*Vice President/Retail Banking Officer*
Beth A. Waddington	*Vice President/BSA Officer*
Jessie J. Coles	*Vice President/Controller*
Kimberly L. Scacco	*Assistant Vice President/Loan Operations Manager*
Ruth C. Thibault	*Assistant Vice President/Community Banking Manager*
Charlene Rutherford	*Assistant Vice President/Community Banking Manager*
Jodie S. Serbeck	*Assistant Vice President/Community Banking Manager*
Cynthia S. Torelli	*Assistant Vice President/Human Resources Administrator*
Luis F. Maldonado	*Assistant Vice President/Community Banking Manager*
Julie Allen	*Banking Officer/Community Banking Manager*
Monica M. Mora	*Banking Officer/Executive Assistant to the President*
Kelly M. Simpkins	*Banking Officer/Senior Loan Processor*
Linda M. Mihalecz	*Banking Officer/Senior Loan Servicing Specialist*
Lisa M. Vargas	*Banking Officer/Retail Loan Processor*

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