FREEDOM BANCORP, INC.

BANKING ON THE FUTURE

ANNUAL REPORT 2019

DEAR FELLOW SHAREHOLDER,

It is our sincere privilege to provide you with Freedom Bancorp's 2019 Annual Report. 2019 was a unique year in the banking industry and presented our Bank with a new set of challenges. Interest rate turmoil and fierce competition from local, regional and national banks has compressed interest margins, and changes in the State tax code increased our State tax liability significantly. Despite these obstacles, Freedom performed exceptionally well, growing at a pace well above its peers, and by year-end was again one of the top-rated banks in the State of New Jersey.

We are proud to report that Freedom Bancorp grew total assets 10.5% from $424.7 million to $469.2 million. This increase was driven by local, organic growth and, most importantly, by a prudent and sound loan pipeline. The total loan portfolio grew to $409.7 million compared to $384.7 million at the end of 2018, due to total loan closings of more than $121 million. Freedom Bancorp consistently produces and services one of the highest performing loan portfolios of any bank in our asset class nationally. Additionally, we were able to grow the deposit base largely in tandem with loans, as total deposits grew from $333.9 million to $390 million or 16.8%.

Freedom ended 2019 with $3.0 million in net income, and while that was 25.8% less than last year, in light of the numerous headwinds we faced, it was still a solid result. There were two primary factors that led to the decline in net income: (i) we made a substantial investment in improving our branch network and our online presence, and (ii) we experienced a compression in our net interest margin due to wide fluctuations in the interest rate markets that had a dramatic effect on the entire financial industry. Despite the margin compression, negative tax changes and growth-related expenses, Freedom continues to perform strongly as compared to its peers. After conversion of the outstanding preferred stock to common on January 1, 2019, book value was $17.44 per share. By the end of 2019 book value had increased to $19.02 per share, representing a 9.1% increase. The Bank substantially outpaced its peer group in return on equity, ending the year at 7.54%, which was 2.33% higher than the state average for our asset class.

As we look forward to 2020 and beyond, our commitment to community and growth remains steadfast. Our East Rutherford branch location is open and ready for new business! We are extremely excited to be able to serve the local community in East Rutherford, and we feel confident this strategic location will serve Freedom well as a gateway into Passaic and Hudson counties.

The Bank's vision of high-tech, high-touch will be an increasing theme in 2020. With the launch of our newly redesigned website we have added the ability to open deposit accounts and apply for mortgage loans online, as well as many other technological enhancements, providing greater functionality and convenience. In addition to the website upgrade, we have introduced the High Yield Savings account, which provides a spectacular rate of return and ease of use.

We hope to see you soon and we look forward to continued growth in 2020.

PAUL S. DOHERTY III
Chairman

MATTHEW R. CARCICH
President & Chief Executive Officer

FREEDOM BANCORP, INC.

BOARD OF DIRECTORS

PAUL S. DOHERTY III, ESQ.
Chairman of the Board
Hartmann Doherty Rosa
Berman & Bulbulbia
Hackensack, NJ

KURT HARTMANN, ESQ.
Vice Chairman of the Board
Hartmann Doherty Rosa
Berman & Bulbulbia
Hackensack, NJ

MATTHEW R. CARCICH
President & Chief Executive Officer
Freedom Bank
Maywood, NJ

TED CARNEVALE, CPA
Gramkow, Carnevale,
Seifert & Co, LLC
Oradell, NJ

PAUL S. DOHERTY, JR.
Arrowpac Inc.
Secaucus, NJ

ANTHONY J. GRACEFFO, ESQ.
Attorney At Law
Hackensack, NJ

RALPH J. LAMPARELLO, ESQ.
Chasan, Lamparello,
Mallon & Cappuzzo, PC
Secaucus, NJ

ALAIN MULKAY, ESQ.
Mulkay & Rendo PC
North Bergen, NJ

DR. ANGEL MULKAY, MD
Mulkay Cardiology
Consultants, PC
Hackensack, NJ

WILLIAM J. PASCRELL III, ESQ.
Princeton Public Affairs Group
(PPAG)
Trenton, NJ

CHARLES F. PEDRANI
Integrity Material Handling
Systems, Inc.
Wyckoff, NJ

STEPHEN G. TRAFLET, ESQ.
Traflet & Fabian
Morristown, NJ

FREEDOM BANK

EXECUTIVE OFFICERS

MATTHEW R. CARCICH
President &
Chief Executive Officer

DIANE SCRIVERI
Executive Vice President &
Chief Lending Officer

JENNIFER FLOOD
Executive Vice President
& Corporate Secretary

CARLO OROPESA
Executive Vice President
& Team Leader

JOEL SWEREN
Executive Vice President
& Chief Financial Officer

FREEDOM BANK

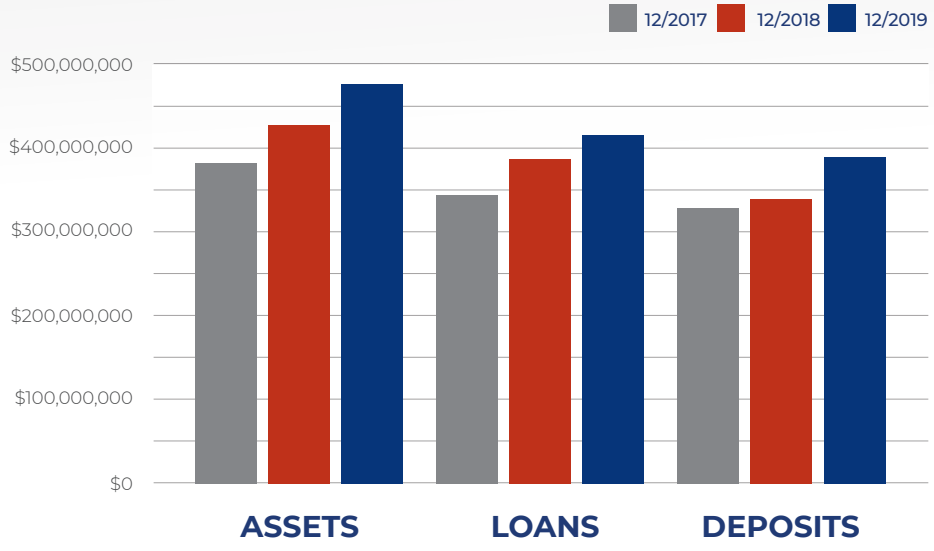
SENIOR OFFICERS

JESSICA DOYLE
Senior Vice President &
Compliance Officer/BSA Officer

PAUL KEATING
Senior Vice President &
Senior Credit Officer

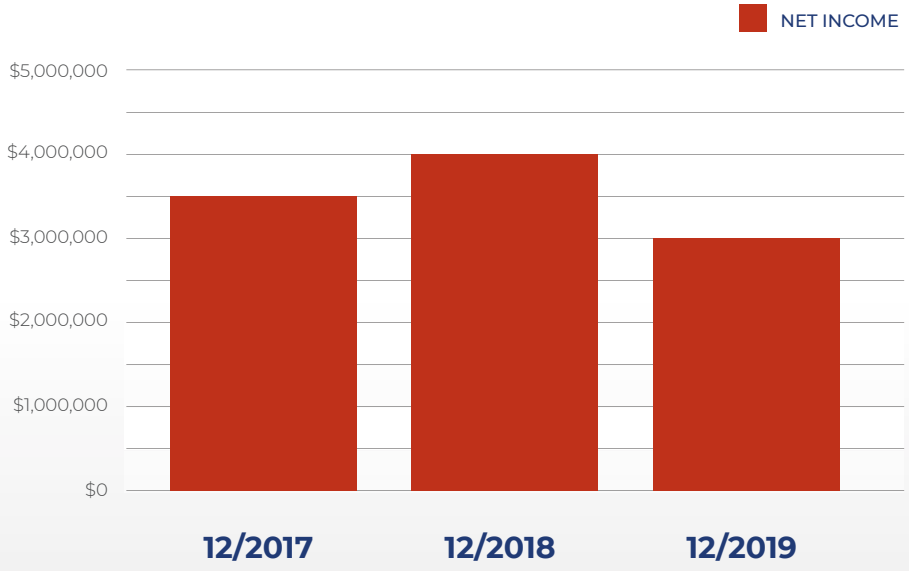
BALANCE SHEET

The balance sheet below highlights our Assets, Loans and Deposits from:



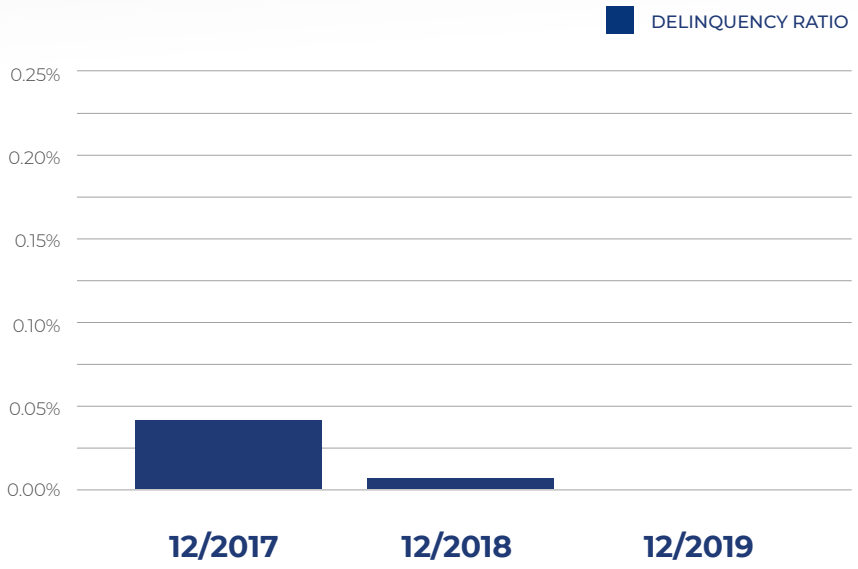
NET INCOME

The chart below shows our net income status from 12/2017, 12/2018 and 12/2019



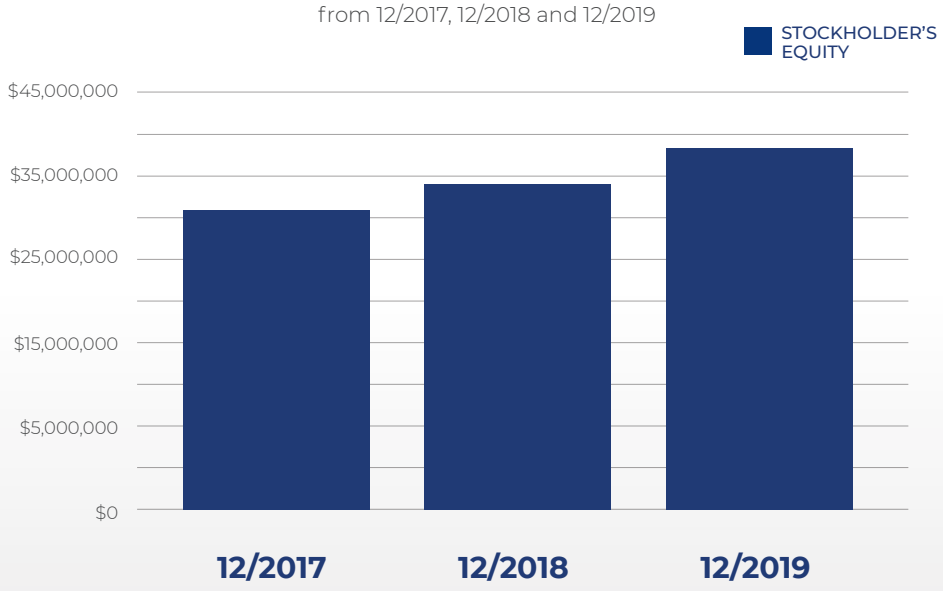
DELINQUENCY RATIO

The chart below depicts our delinquency ratio of loans which are contractually 60 days delinquent or more. The chart reflects 12/2017, 12/2018 and 12/2019.



STOCKHOLDER'S EQUITY

The chart below shows our Stockholder's Equity from 12/2017, 12/2018 and 12/2019



WOLF
& COMPANY, P.C.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Table of Contents

WOLF
& COMPANY, P.C.

Independent Auditor's Report

The Board of Directors of Freedom Bancorp, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Freedom Bancorp, Inc. and subsidiaries which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of net income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Freedom Bancorp, Inc. and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wolf + Company, P.C.

Boston, Massachusetts
February 28, 2020

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
	(In thousands, except share data)	
Assets		
Cash and due from banks	$ 4,948	$ 3,976
Federal funds sold	42,359	24,183
Cash and cash equivalents	47,307	28,159
Certificates of deposit with banks	762	762
Securities available for sale, at fair value	188	342
Securities held to maturity (fair value of $1,406 in 2019 and $1,440 in 2018)	1,389	1,431
Loans, net of allowance for loan losses of $4,921 in 2019 and $4,632 in 2018	403,600	379,005
Premises and equipment, net	1,581	1,786
Accrued interest receivable	1,679	1,567
Restricted equity securities	1,738	2,411
Deferred income taxes	1,072	739
Bank-owned life insurance	8,250	8,046
Other assets	1,675	469
	$ 469,241	$ 424,717
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$ 45,831	$ 43,631
Interest bearing	344,120	290,239
Total deposits	389,951	333,870
Borrowings	26,806	42,936
Subordinated debentures	12,000	12,000
Accrued interest payable	949	657
Other liabilities	2,086	1,005
Total liabilities	431,792	390,468
Shareholders' equity:		
Preferred stock, Series B: $4,425,000 liquidation value; 9% non-cumulative	-	9
Additional paid-in capital - preferred stock	-	4,398
Common stock, par value $5 per share; 5,000,000 shares authorized; shares issued (2019- 2,023,590; 2018 - 1,648,271); shares outstanding (2019 - 1,968,540; 2018 - 1,593,221)	10,118	8,241
Additional paid-in capital - common stock	11,140	8,386
Treasury stock, at cost (55,050 shares)	(716)	(716)
Retained earnings	16,903	13,925
Accumulated other comprehensive income	4	6
Total shareholders' equity	37,449	34,249
	$ 469,241	$ 424,717

The accompanying notes are an integral part of these consolidated financial statements.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Statements of Net Income

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Interest and dividend income:		
Loans, including fees	$ 21,384	$ 19,122
Securities	158	131
Interest-bearing deposits and other	69	25
Federal funds sold	955	431
Total interest and dividend income	22,566	19,709
Interest expense:		
Deposits	7,329	4,400
Borrowings	1,440	1,062
Total interest expense	8,769	5,462
Net interest income	13,797	14,247
Provision for loan losses	330	606
Net interest income, after provision for loan losses	13,467	13,641
Non-interest income:		
Service charges and fees	473	291
Gain on sale of loans	35	91
Bank-owned life insurance	204	243
Total non-interest income	712	625
Non-interest expenses:		
Salaries and employee benefits	5,639	4,901
Occupancy and equipment	1,246	1,128
Professional fees	627	778
Data processing	731	567
Advertising and promotion	583	730
Other	1,304	1,113
Total non-interest expenses	10,130	9,217
Income before income taxes	4,049	5,049
Provision for income taxes	1,071	1,039
Net income	2,978	4,010
Preferred stock dividends	-	265
Net income available to common shareholders	$ 2,978	$ 3,745

The accompanying notes are an integral part of these consolidated financial statements.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Net income	$ 2,978	$ 4,010
Other comprehensive loss:		
Unrealized losses on securities available-for-sale	(3)	(16)
Tax effects	1	5
Total other comprehensive loss	(2)	(11)
Comprehensive income	$ 2,976	$ 3,999

The accompanying notes are an integral part of these consolidated financial statements.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2019 and 2018

	Preferred Stock			Common Stock			Treasury Stock				
	Series B, non-cumulative		Additional Paid-in Capital			Additional Paid-in Capital			Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount		Shares	Amount		Shares	Amount			
	(In thousands, except share data)										
Balance at December 31, 2017	4,425	$ 9	$ 4,398	1,648,271	$ 8,241	$ 8,241	46,050	$ (599)	$ 10,180	$ 17	$ 30,487
Repurchase of common stock	-	-	-	-	-	-	9,000	(117)	-	-	(117)
Share-based compensation expense	-	-	-	-	-	145	-	-	-	-	145
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(11)	(11)
Preferred stock dividend	-	-	-	-	-	-	-	-	(265)	-	(265)
Net income	-	-	-	-	-	-	-	-	4,010	-	4,010
Balance at December 31, 2018	4,425	9	4,398	1,648,271	8,241	8,386	55,050	(716)	13,925	6	34,249
Conversion of Series B Preferred Stock	(4,425)	(9)	(4,398)	371,092	1,856	2,551	-	-	-	-	-
Warrants exercised	-	-	-	4,227	21	29	-	-	-	-	50
Share-based compensation expense	-	-	-	-	-	174	-	-	-	-	174
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(2)	(2)
Net income	-	-	-	-	-	-	-	-	2,978	-	2,978
Balance at December 31, 2019	-	$ -	$ -	2,023,590	$ 10,118	$ 11,140	55,050	$ (716)	$ 16,903	$ 4	$ 37,449

The accompanying notes are an integral part of these consolidated financial statements.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 2,978	$ 4,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	330	606
Depreciation and amortization expense	524	452
Securities (accretion) amortization, net	(3)	16
Amortization (accretion) of deferred loan costs	84	(20)
Deferred income taxes	(332)	(89)
Stock-based compensation expense	174	145
Increase in cash surrender value of bank-owned life insurance	(204)	(243)
Increase in accrued interest receivable	(112)	(175)
Increase in prepaid expenses and other	(1,206)	(253)
Increase in accrued interest payable	292	510
(Decrease) increase in other liabilities	1,081	(363)
Net cash provided by operating activities	3,606	4,596
Cash flows from investing activities:		
Purchases of securities held-to-maturity	(200)	(1,117)
Proceeds from maturities, calls and principal repayments of securities	396	607
Purchases of restricted equity securities	(545)	(1,395)
Redemption of restricted equity securities	1,218	274
Net increase in loans	(25,009)	(38,383)
Purchases of premises and equipment	(319)	(751)
Net cash used by investing activities	(24,459)	(40,765)

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Concluded)

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Cash flows from financing activities:		
Repurchase of common stock	-	(117)
Dividends paid on preferred stock	-	(265)
Proceeds from redemption of warrants	50	-
Net increase in deposits	56,081	6,300
Proceeds from issuance of subordinated debt	-	12,000
Repayment of note payable	-	(4,000)
Proceeds of FHLB borrowings	10,000	30,000
Repayment of FHLB borrowings	(26,130)	(6,071)
Net cash provided by financing activities	40,001	37,847
Net change in cash and cash equivalents	19,148	1,678
Cash and cash equivalents at beginning of year	28,159	26,481
Cash and cash equivalents at end of year	$ 47,307	$ 28,159
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 8,477	$ 4,952
Income taxes	800	1,669

The accompanying notes are an integral part of these consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Effective September 30, 2016, the shareholders of Freedom Bank (the "Bank") approved a corporate reorganization pursuant to which a holding company, Freedom Bancorp, Inc. (the "Company") became the sole stockholder of the Bank. Each outstanding share of the common stock of the Bank was exchanged for one share of common stock of the Company. After consummation, all of the stockholders of the Bank became stockholders of Freedom Bancorp, Inc. The Company is subject to the regulations of the Federal Reserve Bank of New York. The business of the Company is the ownership and operation of the Bank.

The Bank is a commercial bank that commenced operations on April 17, 2008. The Bank is regulated by the New Jersey Department of Banking and Insurance ("NJDOBI") and insured by the Federal Deposit Insurance Corporation. The Bank maintains its administrative offices in Maywood, New Jersey. The primary areas served by the Bank are the counties of Bergen and Hudson, both of which are located in northern New Jersey.

Freedom Investment Company, Inc. ("FIC") was formed in 2014. FIC was incorporated in New Jersey as a wholly-owned subsidiary of the Bank. FIC's primary activity is the ownership and operation of Freedom Asset Holdings 2, Inc. ("FAH2"), a Delaware corporation. FAH2 is 100% owner of Freedom Real Estate Holding, Inc. ("REIT"), a New Jersey corporation. FIC, a New Jersey corporation, owns 100% of the common stock of FAH2.

The accounting and financial reporting policies of the Company and Bank conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled subsidiaries, the Bank, FIC, FAH2 and the REIT. All significant intercompany balances and transactions have been eliminated in consolidation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

In preparing the consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and 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 relates to the determination of the adequacy of the allowance for loan losses and realization of deferred tax assets.

While management uses available information to recognize allowance for losses on loans, future additions to the allowance may be necessary based on changes in the economic conditions of the Bank's market area. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Significant Group Concentrations of Credit Risk

Most of the Company's lending activities are with customers located within northern New Jersey. The Company does not have any significant concentrations to any one industry or customer.

Reclassification

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

Cash and cash equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and amounts due from banks and federal funds sold, all of which mature within ninety days.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Hierarchy

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Securities

Investment securities are classified as “available for sale” or “held to maturity” at the date of purchase. The Bank does not hold trading securities.

Investment securities that are held for indefinite periods of time but not necessarily to maturity, including securities that are used as part of the Bank’s asset/liability management strategy and possibly sold in response to changes in interest rates, prepayments and similar factors are classified as “available for sale.” These securities are carried at fair value, with any temporary unrealized holding gains and losses reported, net of related income tax effect, in a separate equity component of accumulated other comprehensive income.

Investment securities that the Bank has the intent and ability to hold to maturity considering all reasonably foreseeable events or conditions are classified as “held to maturity.” These securities are carried at cost adjusted for amortization of premiums and accretion of discounts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities (concluded)

Purchase discounts are recognized in interest income using the interest method over the terms of the securities. Purchase premiums are recognized in interest income using the interest method through the earliest call date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. For the years ended December 31, 2019 and 2018, the Bank had no realized gains or losses.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other than temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other than temporary impairment related to all other factors is recognized in other comprehensive income (loss). Factors affecting the determination of whether an other than temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or a conclusion that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no other-than-temporary impairment charges on available for sale or held to maturity securities during 2019 or 2018.

Restricted Equity Securities

The Bank holds restricted equity investments in Atlantic Community Bankers' Bank ("ACBB"), Connecticut On-Line Computer Center, Inc. ("COCC") and in the Federal Home Loan Bank of New York ("FHLB"). Based on redemption provisions, the investments have no quoted market values and are carried at cost. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the investments. As of December 31, 2019 and 2018, no impairment has been recognized.

Loans

Loans receivable that management has the intent and the Bank has the ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield of the related loans using the interest method.

Commercial loans consist of the following classes: construction, commercial and industrial loans and commercial real estate loans. Consumer loans consist of the following classes: residential first mortgage loans, home equity loans and consumer loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (concluded)

The accrual of interest is discontinued when the contractual payment of principal or interest becomes 90 days past due or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. Past due status is based on the contractual terms of the loan. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed and charged to earnings. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (at least six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors. The general component is stratified by the following loan segments: construction, commercial real estate, commercial and consumer. The Bank currently determines its provision for loan losses using a combination of its own historical loss experience combined with known factors and circumstances about its existing loan portfolio. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies and non-accrual loans; trends in volume and terms of loans; effects of changes in credit policies, procedures and practices; experience/ability/depth of lending management and staff; national and local economic trends and conditions; changes in the quality of the loan review system; changes in the value of underlying collateral; and concentrations of credit. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2019.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

General component (continued)

For all of its loan segments discussed below, management adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. A reporting system supplements the review process by providing management with frequent reports concerning loan production, loan quality, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by management to manage its risk across business sectors and through cyclical economic circumstances.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Commercial real estate loans are secured primarily by commercial retail space and office buildings and are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. These types of loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. The repayment of most commercial real estate loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and, accordingly, conservative loan to value ratios based on independent appraisals are required at origination, as well as stress testing to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within the Bank's primary markets.

With respect to construction loans to developers and builders, the Bank originates and manages commercial and residential construction loans primarily structured on a non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from conversion to permanent loans extended by the Bank, sales of developed property, or permanent financing obtained elsewhere. Revolving construction loans (generally relating to single family residential construction)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

General component (concluded)

are controlled with loan advances and are generally dependent upon the sale of the commercial or residential housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans because their ultimate repayment is sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

The Bank's commercial and industrial loan portfolio is granted to customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Such collateralized assets may include inventory, machinery and equipment, receivables and real estate. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. The Bank, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk.

The Bank's consumer loans portfolio consists primarily of residential first mortgage loans, secured by one- to four-family and multi-family residential properties, and home equity loans and lines of credit. These loans are secured by first or second liens on either owner-occupied or investment residential properties. These loans can be affected by economic conditions and the value of the underlying properties. The risk is considered relatively low as the Bank maintains conservative underwriting standards and does not have sub-prime loans in its loan portfolio. The consumer loan portfolio also includes smaller exposure (less than 1% of total loans at December 31, 2019) to unsecured and non-real estate secured personal loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (concluded)

Allocated component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings, commercial, commercial real estate and construction loans exceeding certain dollar amounts are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring ("TDR") agreement.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are initially classified as impaired.

Unallocated component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using those deposits, together with other borrowed funds, to make commercial, real estate and consumer loans, and to invest in overnight and term investment securities. Inherent in such activities is the potential for the Bank to assume interest rate risk that results from differences in the maturities and repricing characteristics of assets and liabilities. For this reason, management regularly monitors the level of interest rate risk and the potential impact on net income.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is recorded utilizing the straight-line method over the estimated useful lives of leased bank premises and equipment, generally 3 to 10 years. Leasehold improvements are amortized over the lesser of their useful lives or the lease term, generally 10 to 15 years. Maintenance and repairs are charged to expense as incurred.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchase of life insurance by the Bank on a chosen group of employees and directors. The Bank is the owner and beneficiary of the policies. BOLI policies are reflected on the consolidated balance sheets at cash surrender value. The changes in the net cash surrender value, as well as insurance proceeds received in excess of cash surrender value, are reflected in non-interest income in the consolidated statements of net income and are not subject to income taxes.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset 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 Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers of Financial Assets (concluded)

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws in the period of enactment. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Bank records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2019 and 2018.

Advertising Costs

Advertising costs are expensed as incurred.

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, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Off-balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated balance sheets when they are funded (see Note 12).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, a company should apply a step approach to revenue recognition. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Adoption of this standard did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this Update require that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments are effective for fiscal years beginning after December 15, 2020. Early application is permitted. As of December 31, 2019, the Company had future minimum lease payments of $2,273,000, all under operating lease agreements based on current guidance. The Company's assets and liabilities will increase based upon the present value of the future minimum lease payments as of the date of adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact this Update will have on its consolidated financial statements.

2. SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2019				
Available for sale:				
Mortgage-backed securities	$ 183	$ 5	$ -	$ 188
	$ 183	$ 5	$ -	$ 188
Held-to-maturity:				
U.S. government agency securities	$ 1,196	$ 10	$ -	$ 1,206
Collateralized mortgage-backed securities	14	-	-	14
Mortgage-backed securities	179	7	-	186
	$ 1,389	$ 17	$ -	$ 1,406
December 31, 2018				
Available for sale:				
Mortgage-backed securities	$ 334	$ 8	$ -	$ 342
	$ 334	$ 8	$ -	$ 342
Held-to-maturity:				
U.S. government agency securities	$ 1,192	$ 3	$ (2)	$ 1,193
Collateralized mortgage-backed securities	20	1	-	21
Mortgage-backed securities	219	7	-	226
	$ 1,431	$ 11	$ (2)	$ 1,440

The contractual maturity of securities at December 31, 2019 at their amortized cost and fair value is shown below. Expected maturities will differ from contractual maturities because issuers in certain instances have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In thousands)		
Due in one year or less	$ -	$ -	$ 997	$ 1,005
Due in one to five years	44	46	199	201
Due from five to ten years	-	-	-	-
Due in ten years or later	139	142	193	200
	$ 183	$ 188	$ 1,389	$ 1,406

SECURITIES (concluded)

There were no sales or redemptions of securities during the years ended December 31, 2019 or 2018.

At December 31, 2018, an unrealized loss of less than $2,000 existed on three U.S. Government agency securities having a fair value of $297,000. These securities had been in a continuous loss position for less than twelve months. This temporary loss position was the result of changes in interest rates relative to the coupon rate of the security.

At December 31, 2019 and 2018, investment securities held-to-maturity having a carrying amount of $1,196,000 and $1,000,000, respectively, were pledged to secure public deposits.

3. LOANS

Loans at December 31, 2019 and 2018 were as follows:

	2019	2018
	(In thousands)	
Construction	$ 24,364	$ 26,193
Commercial real estate	213,751	213,259
Commercial and industrial	9,722	9,663
Residential 1st mortgage - multi-family	50,030	37,098
Consumer loans:		
Residential 1st mortgage - 1 to 4 family	92,521	76,237
Home equity	16,977	20,104
Other consumer	2,287	2,130
Total consumer loans	111,785	98,471
Total loans	409,652	384,684
Less:		
Allowance for loan losses	(4,921)	(4,632)
Net deferred loan fees	(1,131)	(1,047)
	$ 403,600	$ 379,005

LOANS (continued)

Disaggregation of Allowance for Loan Losses

The following is a summary of the changes in the Bank's allowance for loan losses for the years ended December 31, 2019 and 2018:

	Construction	Commercial Real Estate	Commercial and Industrial	Home Equity	Residential Mortgage and Other Consumer	Unallocated	Total
				(In thousands)			
Year Ended December 31, 2019							
Allowance for loan losses:							
Beginning balance	$ 419	$ 2,344	$ 312	$ 240	$ 1,305	$ 12	$ 4,632
Provisions	(29)	7	(61)	(53)	308	158	330
Charge-offs	-	(20)	(148)	-	-	-	(168)
Recoveries	-	20	107	-	-	-	127
Ending balance	$ 390	$ 2,351	$ 210	$ 187	$ 1,613	$ 170	$ 4,921
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, loans not deemed impaired	390	2,351	210	187	1,613	170	4,921
	$ 390	$ 2,351	$ 210	$ 187	$ 1,613	$ 170	$ 4,921
Financing receivables:							
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, loans not deemed impaired	24,364	213,751	9,722	16,977	144,838	-	409,652
Total loans	$ 24,364	$ 213,751	$ 9,722	$ 16,977	$ 144,838	$ -	$ 409,652

	Construction	Commercial Real Estate	Commercial and Industrial	Home Equity	Residential Mortgage and Other Consumer	Unallocated	Total
				(In thousands)			
Year Ended December 31, 2018							
Allowance for loan losses:							
Beginning balance	$ 567	$ 1,911	$ 505	$ 191	$ 868	$ 4	$ 4,046
Provisions	(148)	433	(171)	49	435	8	606
Charge-offs	-	-	(22)	-	-	-	(22)
Recoveries	-	-	-	-	2	-	2
Ending balance	$ 419	$ 2,344	$ 312	$ 240	$ 1,305	$ 12	$ 4,632
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, loans not deemed impaired	419	2,344	312	240	1,305	12	4,632
	$ 419	$ 2,344	$ 312	$ 240	$ 1,305	$ 12	$ 4,632
Financing receivables:							
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, loans not deemed impaired	26,193	213,259	9,663	20,104	115,465		384,684
Total loans	$ 26,193	$ 213,259	$ 9,663	$ 20,104	$ 115,465	$ -	$ 384,684

LOANS (continued)

Credit Quality Information

The Company uses a ten grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1 – 5: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 6: Loans in this category do not have any material weaknesses or delinquencies, but are considered "watch" and require a closer overview than "pass" rated loans.

Loans rated 7: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 8: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 9: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 10: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

LOANS (continued)

Credit Quality Information (concluded)

The following is a summary of the Bank's credit risk profile by internally assigned grade at December 31, 2019 and 2018:

	December 31, 2019			
	Construction	Commercial Real Estate	Commercial and Industrial	Total
	(In thousands)			
Pass	$ 20,741	$ 213,160	$ 9,525	$ 243,426
Watch	2,251	591	197	3,039
Special mention	1,372	-	-	1,372
Total	$ 24,364	$ 213,751	$ 9,722	$ 247,837

	December 31, 2018			
	Construction	Commercial Real Estate	Commercial and Industrial	Total
	(In thousands)			
Pass	$ 24,890	$ 212,640	$ 9,289	$ 246,819
Watch	-	601	374	975
Special mention	1,303	-	-	1,303
Substandard	-	18	-	18
Total	$ 26,193	$ 213,259	$ 9,663	$ 249,115

LOANS (concluded)

Age Analysis of Past Due Loans Receivable

	December 31, 2019					
	31-60	61-90	Over 90	Total Past Due	Current	Total
	(In thousands)					
Construction	$ -	$ -	$ -	$ -	$ 24,364	$ 24,364
Commercial real estate	367	-	-	367	213,384	213,751
Commercial and industrial	888	-	-	888	8,834	9,722
Home equity	-	-	-	-	16,977	16,977
Residential mortgage and other consumer	-	-	-	-	144,838	144,838
	$ 1,255	$ -	$ -	$ 1,255	$ 408,397	$ 409,652

	December 31, 2018					
	31-60	61-90	Over 90	Total Past Due	Current	Total
	(In thousands)					
Construction	$ -	$ -	$ -	$ -	$ 26,193	$ 26,193
Commercial real estate	-	-	18	18	213,241	213,259
Commercial and industrial	92	-	-	92	9,571	9,663
Home equity	-	-	-	-	20,104	20,104
Residential mortgage and other consumer	35	-	-	35	115,430	115,465
	$ 127	$ -	$ 18	$ 145	$ 384,539	$ 384,684

As of December 31, 2019, there were no loans on non-accrual status. As of December 31, 2018, there was one loan totaling $18,000 over 90 days past due and on non-accrual status.

At December 31, 2019 and 2018, the Bank held no TDR classified loans. No loans were modified as part of a troubled debt restructuring during the years ended December 31, 2019 or 2018. Additionally, there were no troubled debt restructurings at December 31, 2019 or 2018 which have subsequently defaulted.

4. TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, the Bank may make loans to officers and directors, and companies in which they have a beneficial ownership (related parties). These loans are made under the same terms as those to unrelated parties.

An analysis of the activity of such related party loans for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
	(In thousands)	
Beginning balance	$ 12,422	$ 9,060
Advances	4,657	7,552
Less: repayments	(1,961)	(4,190)
Ending balance	$ 15,118	$ 12,422

At December 31, 2019 and 2018, these loans were current as to payment of principal and interest.

At December 31, 2019 and 2018, deposits from related parties totaled approximately $29,540,000 and $22,293,000, respectively.

The Bank's Guttenberg office location is leased for a ten year period ending May 31, 2021, from an entity whose ownership includes certain members of the Bank's Board of Directors. Payments under this lease during 2019 and 2018 totaled approximately $114,500 and $113,000, respectively. Minimum future lease payments at December 31, 2019 were approximately $164,000 and are included in the minimum lease commitment table in Note 6.

5. PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2019 and 2018 were as follows:

	2019	2018
	(In thousands)	
Leasehold improvements	$ 1,964	$ 1,888
Furniture and equipment	1,072	952
Computer hardware and software	323	356
	3,359	3,196
Less: accumulated depreciation and amortization	(1,778)	(1,410)
Premises and equipment, net	$ 1,581	$ 1,786

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2019 and 2018 was approximately $524,000 and $452,000, respectively.

6. COMMITMENTS AND CONTINGENCIES

The Bank leases its main office and branch locations. Rent expense for the years ended December 31, 2019 and 2018 was approximately $554,115 and $524,000, respectively. Minimum rent commitments under non-cancelable operating leases, excluding taxes and insurance, are as follows, before considering renewal options that generally are present.

Year Ending December 31,	Amount
	(In thousands)
2020	$ 618
2021	565
2022	528
2023	340
2024	147
Thereafter	75
	$ 2,273

Litigation

The Bank may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. Currently, management is not aware of any significant litigation.

COMMITMENTS AND CONTINGENCIES (concluded)

Executive Employment Agreement and Change of Control

The Bank has entered into an employment agreement with an executive that provides for specified annual compensation and certain other benefits, as defined in the agreement, with an original term of three years. Thereafter, the agreements automatically extend for an additional one-year term unless the Bank or the executive has given the other party notice within a specified number of days prior to the anniversary of the agreement. Such employment may be terminated for cause, as defined, without incurring any continuing obligation. The agreement also provides for a specified lump sum cash payment to the executive upon a change in control of the Bank (as defined in the agreement).

7. DEPOSITS

Deposits at December 31, 2019 and 2018 were as follows:

	2019	2018
	(In thousands)	
Demand, noninterest bearing	$ 45,831	$ 43,631
Money market and NOW accounts	110,995	78,274
Savings	2,280	1,892
Total non-certificate accounts	159,106	123,797
Term certificates of $250,000 or more	76,203	62,984
Term certificates less than $250,000	154,642	147,089
Total certificate accounts	230,845	210,073
	$ 389,951	$ 333,870

The scheduled maturities of certificates of deposit (in thousands) at December 31, 2019 are as follows:

2020	$ 185,879
2021	40,015
2022	3,067
2023	1,764
2024	120
	$ 230,845

8. BORROWINGS

The Bank has a $15,000,000 overnight unsecured line of credit for the purchase of Federal Funds with CenterState Bank signed in July 2019. At December 31, 2019 and 2018, there were no advances outstanding on the line of credit with CenterState Bank. The Bank also has a $5,000,000 line of credit with ACBB. At December 31, 2019 and 2018, there were no advances outstanding with ACBB.

FHLB borrowings at December 31, 2019 and 2018 consist of the following:

	2019		2018	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
2019	$ -	- %	$ 20,430	2.66%
2020	914	2.09	2,111	2.09
2021	636	1.65	1,075	1.65
2022	7,332	1.82	10,073	1.82
2023	7,924	3.10	9,247	3.10
2024	10,000	1.99	-	-
	$ 26,806	2.27%	$ 42,936	2.51%

All borrowings from the FHLB are secured by a blanket security agreement on qualified collateral defined principally as residential mortgage loans, in an aggregate amount equal to outstanding advances.

Deposits of certain municipalities and local government agencies are collateralized by a $16 million Municipal Letter of Credit with the FHLB with no amounts outstanding as of December 31, 2019 or 2018.

9. SUBORDINATED DEBENTURES

On June 28, 2018, the Company issued $12.0 million of fixed-to-floating rate subordinated debentures (the “Notes”) in a private placement. The Notes have a ten-year term and bear interest at a fixed annual rate of 6.50% for the first five years of the term (the "Fixed Interest Rate Period"). From and including July 1, 2023, the interest rate will adjust to a floating rate based on the three-month LIBOR plus 3.61% until redemption or maturity (the "Floating Interest Rate Period"). The Notes are scheduled to mature on July 1, 2028. Subject to limited exceptions, the Company cannot redeem the Notes for the first five years of the term. The Company will pay interest in arrears semi-annually during the Fixed Interest Rate Period and quarterly during the Floating Interest Rate Period during the term of the Notes. The Notes constitute an unsecured and subordinated obligation of the Company and rank junior in right of payment to any senior indebtedness and obligations to general and secured creditors. The portion of the Notes that the Company contributes to the Bank will qualify as Tier 1 capital for the Bank. The additional capital will be used for general corporate purposes including organic growth initiatives.

10. INCOME TAXES

Income tax expense for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
	(In thousands)	
Current income tax expense:		
Federal	$ 964	$ 1,126
State	439	2
	1,403	1,128
Deferred income tax expense (benefit):		
Federal	(172)	(60)
State	(160)	(29)
	(332)	(89)
	$ 1,071	$ 1,039

INCOME TAXES (concluded)

A reconciliation between the recorded income tax expense and the expected amount (computed by multiplying income before income tax times the applicable statutory Federal income tax rate of 21%) for the years ended December 31, 2019 and 2018, respectively, is as follows:

	2019	2018
	(In thousands)	
Computed expected federal income tax	$ 850	$ 1,060
Increase (decrease) in income tax expense resulting from:		
State income taxes, net of federal benefit	220	(21)
Bank owned life insurance income	(43)	(51)
Other	44	51
	$ 1,071	$ 1,039

The net deferred tax asset consists of the following at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Allowance for loan losses	$ 1,107	$ 1,014
Organizational costs	44	58
Unrealized gain on available-for-sale securities	(1)	(2)
Employee benefit and share based compensation plans	90	-
Premises and equipment	(193)	(289)
Other	25	(42)
	$ 1,072	$ 739

At December 31, 2019 and 2018, the Bank had no uncertain income tax positions. Federal and state income tax returns of the Bank for the years 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

11. EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) benefit plan which allows employees to make contributions subject to the limitations by the Internal Revenue Code. For the years ended December 31, 2019 and 2018, the Bank made matching contributions of 50% of the first 4% of employee contributions. In addition, the Bank made a profit sharing contribution equal to three percent of their qualified earnings in 2019 and 2018. For the years ended December 31, 2019 and 2018, total 401(k) benefit plan contribution expense was $200,000 and $161,000, respectively.

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in these particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of these instruments.

The Bank has historically used the same credit policies in making conditional obligations as it does for on-balance sheet instruments. At December 31, 2019, the Bank had the following financial instruments, whose contract amounts represented credit risk.

	2019	2018
	(In thousands)	
Loan commitments	$ 10,224	$ 8,658
Unfunded commitments under lines of credit	71,566	46,107
Standby letters of credit	3,223	3,117
Undisbursed construction loans	30,629	12,836

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Substantially all of the commitments in the form of unused lines of credit are at variable interest rates. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, marketable securities, inventory, property and equipment and real estate.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank does not issue or hold derivative instruments.

13. SHAREHOLDERS' EQUITY

In March 2008, the Bank completed its initial offering of common stock and issued 1,315,856 shares of $5 par value common stock at $10 per share generating proceeds of $13,158,560. In connection with the Bank's initial capital offering, each shareholder received one warrant for every four shares of common stock purchased. Due to fractional shares, 328,957 warrants were issued to purchase 328,957 shares of the Bank's common stock. These warrants have an exercise price of $12.00 per share, and may be exercised until April 2021. As of December 31, 2019, 4,227 warrants have been exercised.

Pursuant to an Offering Circular dated July 30, 2010, the Bank offered for purchase an additional 500,000 shares of the Bank's common stock (with an option to increase the offering to 650,000 shares of common stock) at an offering price of $10.00 per share (the "Offering"). The Offering was initially scheduled to terminate on October 31, 2010. The Offering closed in 2011 with the issuance of 332,415 shares for net proceeds of $3,324,150.

Pursuant to an Offering Circular dated June 15, 2014, the Bank offered for purchase 8,000 shares of perpetual convertible preferred stock (with an option to increase the offering to 10,000 shares) at an offering price of $1,000 per share (the "New Offering"). The New Offering closed on October 1, 2014 with the issuance of 4,425 preferred shares of $2 par value Series B preferred stock for net proceeds of $4,407,000.

The preferred shares are non-voting with a 6% dividend rate. They are convertible into 83.86 common shares per preferred share. The preferred shares may be converted into shares of the Bank's common stock (i) at any time, at the election of the holder, at any quarter-end, (ii) at the direction of the Bank, at any quarter-end, commencing on the third anniversary of consummation of the New Offering, or (iii) upon a change of control of the Bank. Total dividends paid out in 2018 on these shares amounted to $265,000.

The Company elected to convert the 4,425 preferred shares into 371,092 common shares effective as of January 1, 2019.

All of the above outstanding instruments of the Bank were exchanged for exact instruments of the Company when the Company was formed.

14. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets, a minimum ratio of Tier 1 capital to risk-weighted assets, a minimum leverage ratio, and a minimum ratio of total capital to risk-weighted assets as set forth in the table below. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

As of December 31, 2019, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and ratios are presented in the following table. Consolidated capital amounts are not presented below.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2019						
Total Capital (to Risk-Weighted Assets)	$ 53,792	14.12%	$ 30,476	8.00%	$ 38,096	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	49,029	12.87%	22,857	6.00%	30,476	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	49,029	12.87%	17,143	4.50%	24,762	6.50%
Tier 1 Capital (to Average Assets)	49,029	10.83%	18,114	4.00%	22,642	5.00%
December 31, 2018						
Total Capital (to Risk-Weighted Assets)	$ 50,599	14.15%	$ 28,608	8.00%	$ 35,760	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	46,128	12.90	21,456	6.00	28,608	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	46,128	12.90	16,092	4.50	23,244	6.50
Tier 1 Capital (to Average Assets)	46,128	11.21	16,454	4.00	20,567	5.00

The Bank is subject to certain regulatory restrictions on the amount of dividends that it may declare without regulatory approval.

15. STOCK COMPENSATION PLANS

The Company maintains stock option plans for employees and non-employee directors of the Bank. The stock option plans generally provide for the granting of stock options with an exercise price of each option equaling the market price of the Bank's stock on the date of the grant.

The 2008 Equity Compensation Plan was approved at a special meeting of the shareholders on August 6, 2008, and provides for the granting of up to 263,168 options to purchase shares of the Bank's stock, with allocation of 131,584 to non-employee members of the Board and 131,584 to employees.

On February 21, 2018, the Company granted 131,584 stock options to non-employee members of the Board. The options were granted at an exercise price of $17.23, a term of 10 years and a 5 year vesting period. There were no stock options granted for the year ended December 31, 2019.

STOCK COMPENSATION PLANS (concluded)

Compensation expense recognized for all option grants is net of estimated forfeitures and is recognized over the awards' respective requisite service periods. The calculated values relating to all option grants were estimated using the Black-Scholes option pricing model. Due to the limited amount of transactions involving its common stock, the Company estimates the volatility of its stock in consideration of a number of factors including benchmark banking index volatilities. The mid-point of the option term and the vesting period were used to estimate the expected option term, which represents the period of time that the options granted are expected to be outstanding. The risk-free rate for periods consistent with the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The estimated forfeiture rate is based on estimated expectations and industry data, as well as subsequent events occurring prior to the issuance of the financial statements. Because stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the calculated value estimate, the existing model may not necessarily provide a reliable single measure of the calculated value of the Company's stock options.

Compensation expense for the calculated values of these awards is recognized on a straight-line basis over the requisite service period of the awards. During the years ended December 31, 2019 and 2018, the Company recorded $174,000 and $145,000, respectively, of share-based compensation expense.

There were no forfeitures for the year-ended December 31, 2019. There were 26,317 options vested as of December 31, 2019. Expected future compensation expense relating to the non-vested options outstanding as of December 31, 2019 is $551,000 and will be recognized over a weighted average period of 3.17 years. Given the limited trading of the Company's common stock, the intrinsic value of the options outstanding is not readily determinable.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Under GAAP, financial assets and financial liabilities recorded at fair value in the consolidated balance sheets are categorized based upon whether or not the inputs used to measure their fair value are observable or unobservable. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Basis of Fair Value Measurement

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value.

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities carried at fair value and to determine fair value disclosures.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based inputs. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Bank's creditworthiness, among other things, as well as unobservable inputs. Any such valuation adjustments are applied consistently over time.

Investment Securities Available for Sale

Investment securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these investment securities, the Bank obtains fair value measurements from an independent pricing service unadjusted by management.

The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the investment security's terms and conditions, among other things.

FAIR VALUE OF FINANCIAL INSTRUMENTS (concluded)

Investment Securities Available for Sale (concluded)

The following tables summarize financial assets measured at fair value on a recurring basis in the consolidated balance sheets at December 31, 2019 and 2018, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Mortgage-backed securities	$ 188	$ -	$ 188	$ -
	$ 188	$ -	$ 188	$ -

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Mortgage-backed securities	$ 342	$ -	$ 342	$ -
	$ 342	$ -	$ 342	$ -

There were no financial assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2019 and 2018.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 28, 2020, which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

(This page intentionally left blank)

(This page intentionally left blank)

BANKING ON THE FUTURE

FREEDOM BANCORP, INC.

GROWINGTOGETHER

2019 was an exciting year for Freedom Bank as we started the construction of our newest branch in East Rutherford, NJ and redesigned our website with the ability to open accounts online.

The East Rutherford branch opened its doors on February 10, 2020 making this our 5th branch location. Situated in a desirable part of Bergen County, it is located on the convenient North corridor of Route 17, which is a great compliment to the other three locations the Bank has on Route 17 South.

The East Rutherford branch manager brings more than 15 years of experience and knowledge in providing exemplary customer service and banking excellence. Her team is excited and ready to serve the community.

Freedom Bank has continued steady growth over the past year with our total loan portfolio growing to $409.7 million compared to $384.7 million at the end of 2018. We only expect continued growth as we expand our online presence and make it more convenient than ever for customers to bank with Freedom Bank. We are also 100% committed to providing high-tech, high-touch services at each of our branch locations.

We take pride in being a trusted partner in the communities we serve and appreciate the relationships that we have built over the years.

> “Freedom Bank continues to grow and adapt to the ever-changing landscape of banking. We are committed to the communities we serve by providing multiple branch locations, however, we know that as banking evolves we need to provide a virtual option, which is why we are dedicated to redesigning and continually enhancing our website so that we may view it as our 6th bank branch.”

JENNIFER FLOOD
Executive Vice President of Operations
Freedom Bank

“I started with one restaurant in another part of town and decided to take a leap and purchase a building along the waterfront in Guttenberg. I approached Freedom Bank and they were able to work out a business loan that was beneficial to me. The Guttenberg restaurant has 70 employees, and the 8-year relationship has been great with the Bank.

They are like family. It’s that kind of relationship. That’s the real deal, you couldn’t match that kind of relationship with the large banks. I like that we’re growing together. They have a small business perspective.”

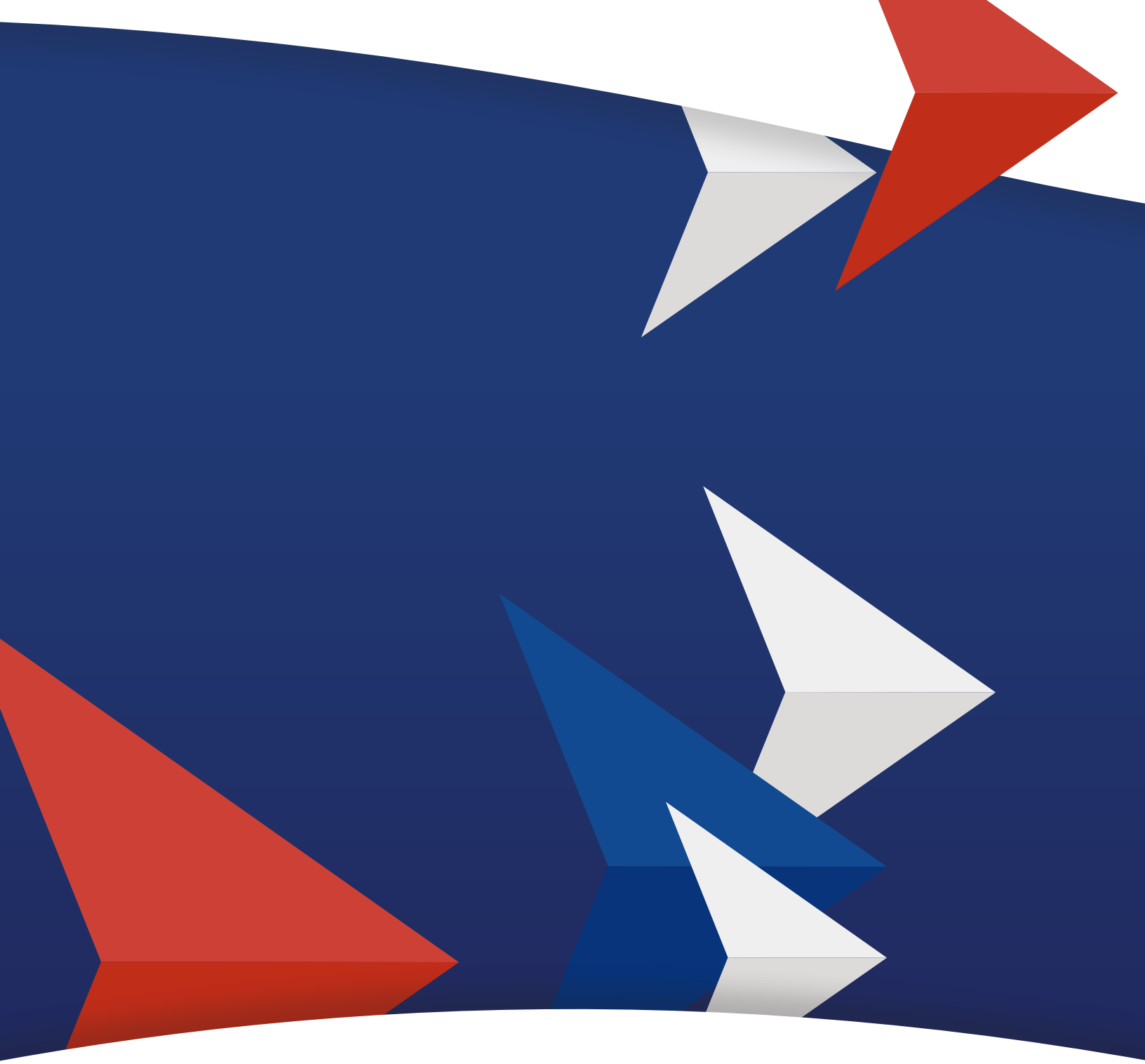
ALAN AND NAIRELYS LOPEZ
Owners Rumba Cubana, Guttenberg

LOOKINGFORWARD

2020 will be a year of transformation and growth as our commitment to technology and convenience flourishes through our newly redesigned website. Now, clients can open a new personal account at their fingertips. The new site is more robust, interactive and educational, delivering an optimal user experience. We will continue to enhance the website to allow for online loan applications and more.

In further commitment to customer-centric services, this spring we plan to launch Zelle® - a fast, safe and easy way to send money in minutes to friends, family and colleagues. Our dedication to online and mobile banking does not take away from the excellent in-person service our customers have grown to love. Our branches will continue to grow and provide easy-to-use, efficient tools matched with unrivaled customer service.

Over the past eleven years, Freedom Bank has become a staple in the community and earned a reputation for trust, quality and excellence – none of which could happen without our dedicated staff and partners. We look forward to another great year ahead, forging new relationships and continuing to enhance our current client base.



FREEDOM BANCORP, INC.

East Rutherford
80 Route 17 N.
East Rutherford, NJ

Mahwah
380 Route 17 S. Suite 4
Mahwah, NJ

Ridgewood
375 Route 17 S.
Ridgewood, NJ

Guttenberg
6812 Park Ave.
Guttenberg, NJ

Maywood
99 West Essex St. 2nd Floor
Maywood, NJ

www.FBNJ.com
(201) 599-3000

Member FDIC