BUILDING A LEGACY

Annual Report **2022**

FREEDOM BANCORP, INC.

OUR FELLOW SHAREHOLDERS,

It is our sincere pleasure to provide the financial performance report of Freedom Bancorp for 2022. In this Shareholder Report entitled "Building a Legacy" we will illustrate what a remarkable and monumental year 2022 was in all aspects of financial measurement. Freedom experienced solid organic growth, maintained its pristine credit quality within its growing loan portfolio, and reached franchise records in net income, equity and share value.

Listed below are several of the salient measurements from the year 2022:

- Total assets grew from $610.1 million to $651.8 million in 2022
- Total loans increased to $591.2 million from $509.0 million in 2021
- Total deposits rose to $538.4 million compared to $515.2 million for the previous year end
- Net income rose to a record $8.39 million from $6.5 million in 2021
- Return on Equity improved from 15.21% to a franchise high of 17.11%
- Delinquent loans remained nominal at .32% percent versus .26% the previous year
- Book value increased from $22.91 in 2021 to $26.91 at the end of 2022

The issuance of this Shareholder Report finds Freedom and the American economy in the midst of an unprecedented interest rate environment. The Federal Reserve Bank's efforts to curb rising inflation has created a market unlike one that has not been seen for decades. It is important for all of us at Freedom Bancorp to assure our fellow Shareholders that in spite of dramatically increasing rates, Freedom remains an extremely strong and profitable organization, that is well capitalized, well balanced, and built to withstand the potentially uncertain waters that may be in front of us in 2023 and beyond.

As we enter our 15th year as an organization, we are proud to stand as a fully independent, true community bank that values its customers, its shareholders, and the local businesses we serve. We reiterate our commitment to outstanding customer service, value added technological enhancements, and the personal service that has become the trademark of Freedom's dedicated employees.

We would love to have the opportunity to present the year of 2022 in review at our Annual Shareholders Meeting, scheduled for April 27, 2023 at 6pm at the Bacari Grill in the Township of Washington. Executive Management and the Board of Directors looks forward to seeing you there!

Paul S Doherty III

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 & Bulbulia, LLC
Hackensack, NJ

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

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

TED CARNEVALE, CPA
Grassi | Advisors & Accountants
Park Ridge, NJ

JEFFREY P. DOHERTY
Instinet, LLC
New York, NY

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

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 C. SWEREN
Executive Vice President
& Chief Financial Officer

JESSICA DOYLE
Executive Vice President
& Director of Compliance

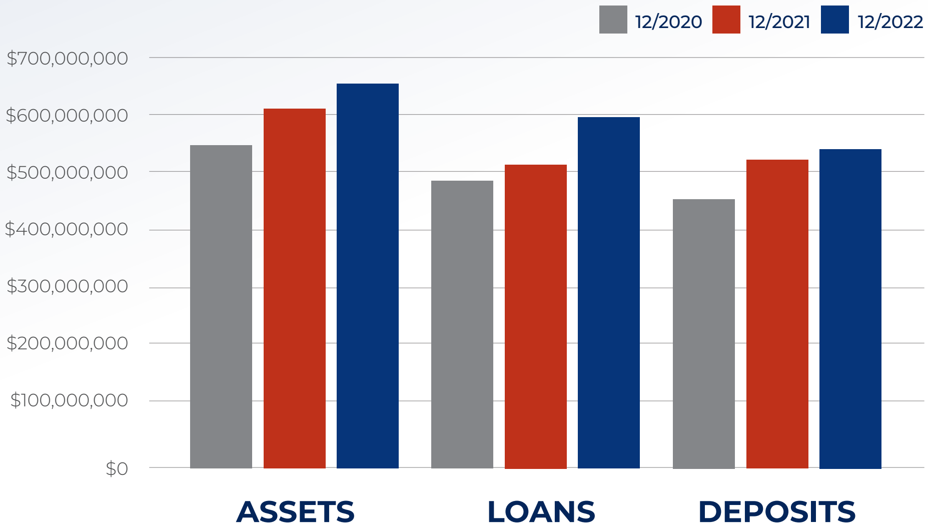
Freedom Bank

SENIOR OFFICERS

PAUL KEATING
Senior Vice President &
Senior Credit Officer

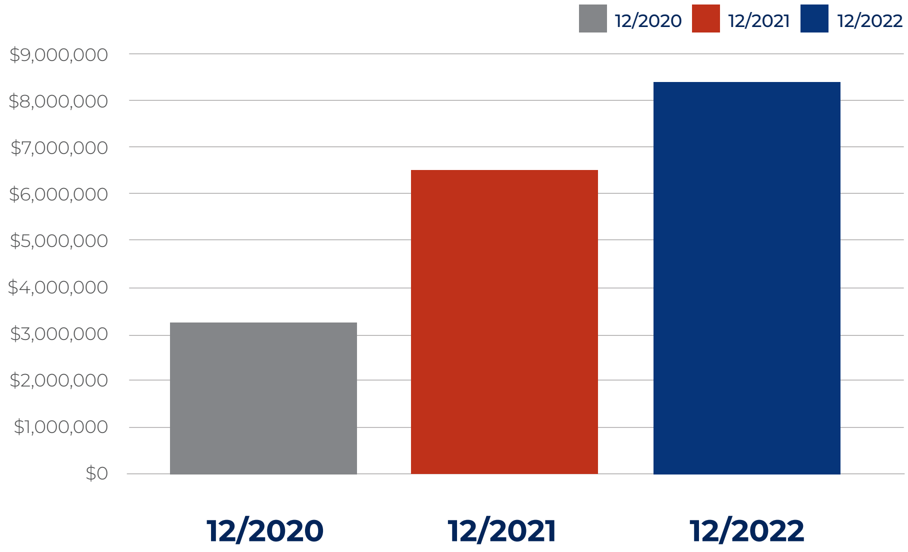
BALANCE SHEET

The balance sheet below highlights our Assets,
Loans and Deposits from 2020, 2021 and 2022



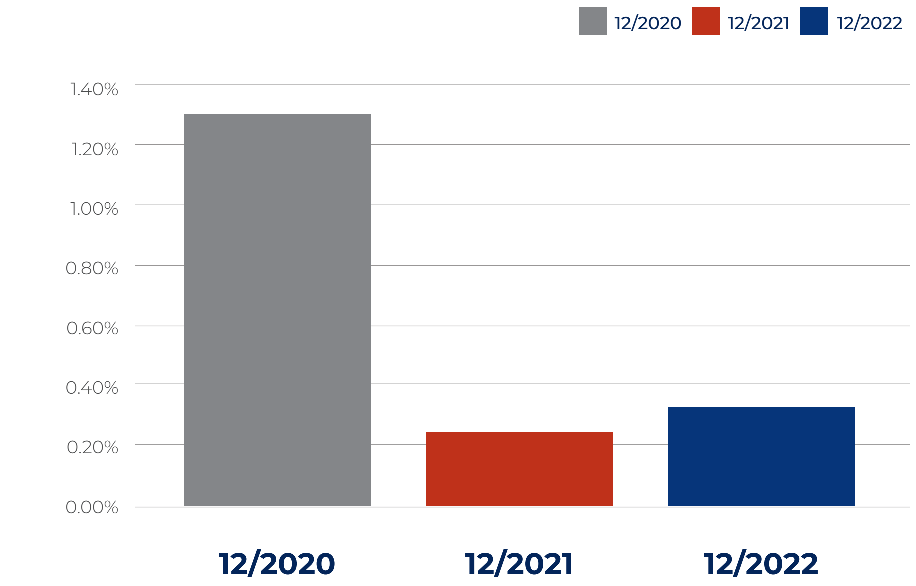
NET INCOME

The chart below shows our net income for
the years ended 12/2020, 12/2021 and 12/2022



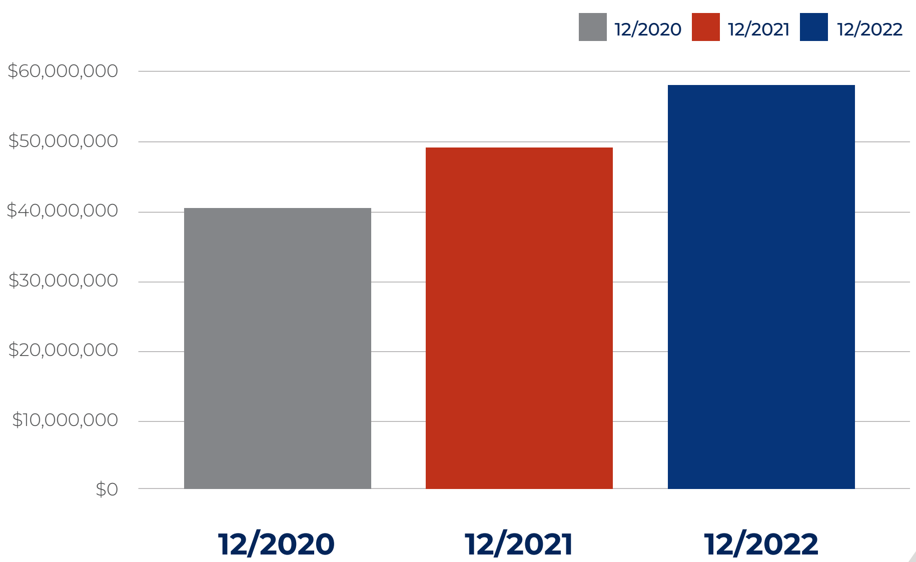
DELINQUENCY RATIO

The chart below depicts our delinquency ratio of loans which are contractually 30 days delinquent or more. The chart reflects 12/2020, 12/2021 and 12/2022



STOCKHOLDERS' EQUITY

This chart below shows our Stockholders' Equity from 12/2020, 12/2021 and 12/2022



Freedom Bancorp, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Freedom Bancorp, Inc.

Opinion

We have audited the consolidated financial statements of Freedom Bancorp, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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 (collectively, the financial statements).

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

Basis for Opinion

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

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.

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 Company's ability to continue as a going concern within one year after the date that the financial statements are 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 Company’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 Company’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.

Other Information Included in the Annual Report
Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Wolf & Company, P.C.

Boston, Massachusetts
March 9, 2023

Freedom Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2022	December 31, 2021
	(In thousands, except share data)	
Assets		
Cash and due from banks	$ 3,899	$ 2,954
Federal funds sold and interest earning deposits	4,208	56,937
Cash and cash equivalents	8,107	59,891
Certificates of deposit with banks	32	18
Securities available for sale, at fair value	66	131
Securities held to maturity (fair value of $31,744 in 2022 and $28,455 in 2021)	35,424	28,623
Loans, net of allowance for loan losses of $5,427 in 2022 and $5,702 in 2021	585,753	503,297
Premises and equipment, net	1,422	1,899
Accrued interest receivable	3,853	3,371
Restricted equity securities	2,445	2,083
Deferred income taxes	1,695	1,648
Bank-owned life insurance	8,844	8,658
Other assets	4,157	432
	$ 651,798	$ 610,051
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$ 86,075	$ 79,940
Interest bearing	452,354	435,268
Total deposits	538,429	515,208
Borrowings	38,200	31,351
Subordinated debentures	12,000	12,000
Accrued interest payable	598	364
Other liabilities	5,078	2,195
Total liabilities	594,305	561,118
Shareholders' equity:		
Common stock, par value $5 per share; 5,000,000 shares authorized; shares issued - 2,282,306; shares outstanding - 2,136,291	11,412	11,412
Additional paid-in capital - common stock	13,472	13,298
Treasury stock, at cost (146,015 shares)	(2,437)	(2,437)
Retained earnings	35,045	26,657
Accumulated other comprehensive income	1	3
Total shareholders' equity	57,493	48,933
	$ 651,798	$ 610,051

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, 2022	2021
	(In thousands)	
Interest and dividend income:		
Loans, including fees	$ 27,666	$ 24,529
Securities	694	173
Interest-bearing deposits and other	31	10
Federal funds sold	358	77
Total interest and dividend income	28,749	24,789
Interest expense:		
Deposits	4,277	3,042
Borrowings	1,372	1,441
Total interest expense	5,649	4,483
Net interest income	23,101	20,306
Provision (credit) for loan losses	(275)	450
Net interest income, after provision (credit) for loan losses	23,376	19,856
Non-interest income:		
Service charges and fees	326	555
Bank-owned life insurance	186	218
Total non-interest income	512	773
Non-interest expenses:		
Salaries and employee benefits	7,197	6,377
Occupancy and equipment	1,519	1,545
Professional fees	928	1,099
Data processing	988	934
Advertising and promotion	364	317
Other	1,668	1,438
Total non-interest expenses	12,664	11,710
Income before income taxes	11,224	8,919
Provision for income taxes	2,836	2,418
Net income	$ 8,388	$ 6,501

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,	
	2022	2021
	(In thousands)	
Net income	$ 8,388	$ 6,501
Other comprehensive loss:		
Unrealized losses on securities available for sale	(3)	(2)
Tax effects	1	1
Total other comprehensive loss	(2)	(1)
Comprehensive income	$ 8,386	$ 6,500

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, 2022 and 2021

	Common Stock			Treasury Stock			Accumulated	
			Additional				Other	Total
			Paid-in			Retained	Comprehensive	Shareholders'
	Shares	Amount	Capital	Shares	Amount	Earnings	Income	Equity
				(In thousands, except share data)				
Balance at December 31, 2020	2,043,976	$ 10,220	$ 11,457	96,015	$ (1,437)	$ 20,156	$ 4	$ 40,400
Repurchase of Common Stock	-	-	-	50,000	(1,000)	-	-	(1,000)
Warants exercised	238,330	1,192	1,667	-	-	-	-	2,859
Share-based compensation expense	-	-	174	-	-	-	-	174
Other comprehensive loss	-	-	-	-	-	-	(1)	(1)
Net income	-	-	-	-	-	6,501	-	6,501
	-	-	-	-	-		-	
Balance at December 31, 2021	2,282,306	11,412	13,298	146,015	(2,437)	26,657	3	48,933
Share-based compensation expense	-	-	174	-	-	-	-	174
Other comprehensive loss	-	-	-	-	-	-	(2)	(2)
Net income	-	-	-	-	-	8,388	-	8,388
Balance at December 31, 2022	2,282,306	$ 11,412	$ 13,472	146,015	$ (2,437)	$ 35,045	$ 1	$ 57,493

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,	
	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 8,388	$ 6,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	(275)	450
Depreciation and amortization expense	606	624
Securities accretion, net	(52)	(1)
Accretion of deferred loan costs	(1,094)	(1,306)
Deferred income taxes	(16)	(247)
Stock-based compensation expense	174	174
Increase in cash surrender value of bank-owned life insurance	(186)	(218)
Decrease (increase) in accrued interest receivable	(482)	200
Increase in prepaid expenses and other	(184)	(48)
Increase (decrease) in accrued interest payable	234	(55)
Increase (decrease) in other liabilities	(689)	695
Net cash provided by operating activities	6,424	6,769
Cash flows from investing activities:		
Decrease (increase) in certificates of deposits with banks	(14)	544
Purchases of securities held to maturity	(30,658)	(65,472)
Proceeds from maturities, calls and principal repayments of securities	23,972	45,311
Purchases of restricted equity securities	(504)	(103)
Redemption of restricted equity securities	142	200
Net increase in loans	(81,087)	(25,884)
Purchases of premises and equipment	(129)	(215)
Net cash used in investing activities	(88,278)	(45,619)

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,	
	2022	2021
	(In thousands)	
Cash flows from financing activities:		
Repurchase of common stock	-	(1,000)
Proceeds from redemption of warrants	-	2,859
Net increase in deposits	23,221	64,613
Proceeds of FHLB borrowings	10,000	-
Repayment of FHLB borrowings	(3,151)	(4,438)
Net cash provided by financing activities	30,070	62,034
Net change in cash and cash equivalents	(51,784)	23,184
Cash and cash equivalents at beginning of year	59,891	36,707
Cash and cash equivalents at end of year	$ 8,107	$ 59,891
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 5,415	$ 4,538
Income taxes	$ 3,547	$ 2,450

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 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 relate to the determination of the adequacy of the allowance for loan losses.

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.

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, 2022 and 2021, 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 2022 or 2021.

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, 2022 and 2021, 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 is generally 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, residential real estate, multifamily, commercial and industrial, 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. The Company further disaggregated its qualitative factor analysis by loan type during 2021. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2022.

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) 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

General component (concluded)

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.

This segment of the loan portfolio includes loans issued under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). These loans are guaranteed and are not allocated a general reserve because the Bank has not experienced losses on such loans and management expects the guarantees will be effective.

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, 2022) 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 and industrial, 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 Bank 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 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.

The Bank 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 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.

Leases

The Bank determines if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets are included in other assets and operating lease liabilities are included in other liabilities in the consolidated balance sheet. The Bank does not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate, which is the Federal Home Loan Bank classic advance rate, based on the information available at commencement date in determining the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease term.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2022 and 2021.

Advertising Costs

Advertising costs are expensed as incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

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.

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

Effective January 1, 2022, the Bank adopted Financial Accounting Standard Board ("FASB") Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The amendments in this ASU 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, 2021. The Company adopted this ASU on December 31, 2022 (discount rate applied as of January 1, 2022) and recorded an increase in assets and liabilities of $3,572,000 on the consolidated balance sheet as a result of recognizing the right-of-use assets and lease liabilities.

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 determined that a $1,407,000 adjustment to decrease the allowance for credit losses, and a $137,000 adjustment to increase the reserve to an off-balance sheet commitment, resulting in a $912,000 net of tax increase to retained earnings upon adoption on January 1, 2023 (unaudited).

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, 2022				
Available for sale:				
Mortgage-backed securities	$ 65	$ 1	$ -	$ 66
	$ 65	$ 1	$ -	$ 66
Held-to-maturity:				
U.S. government agency securities	$ 5,000	$ -	$ (574)	$ 4,426
U.S. treasury securities	7,361	-	(125)	7,236
Collateralized mortgage-backed securities	7	-	-	7
Mortgage-backed securities	23,056	-	(2,981)	20,075
	$ 35,424	$ -	$ (3,680)	$ 31,744
December 31, 2021				
Available for sale:				
Mortgage-backed securities	$ 127	$ 4	$ -	$ 131
	$ 127	$ 4	$ -	$ 131
Held-to-maturity:				
U.S. government agency securities	$ 5,000	$ -	$ (127)	$ 4,873
U.S. treasury securities	13,600	-	(2)	13,598
Collateralized mortgage-backed securities	9	-	-	9
Mortgage-backed securities	10,014	-	(39)	9,975
	$ 28,623	$ -	$ (168)	$ 28,455

The contractual maturity of securities at December 31, 2022 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	$ 1	$ 1	$ 5,566	$ 5,467
Due in one to five years	-	-	6,795	6,194
Due in ten years or later	64	65	23,063	20,083
	$ 65	$ 66	$35,424	$31,744

SECURITIES (concluded)

There were no sales of securities during the years ended December 31, 2022 or 2021.

At December 31, 2022 and 2021, investment securities held to maturity having a carrying amount of $2,200,000 and $13,600,000, respectively, were pledged to secure public deposits.

3. LOANS

Loans at December 31, 2022 and 2021 were as follows:

	2022	2021
	(In thousands)	
Construction	$ 33,974	$ 35,749
Commercial real estate	258,552	243,508
Commercial and industrial *	6,371	16,235
Residential 1st mortgage - multi-family	119,558	81,742
Consumer loans:		
Residential 1st mortgage - 1 to 4 family	151,933	113,442
Home equity	18,802	17,438
Other consumer	3,451	2,436
Total consumer loans	174,186	133,316
Total loans	592,641	510,550
Less:		
Allowance for loan losses	(5,427)	(5,702)
Net deferred loan fees	(1,461)	(1,551)
	$ 585,753	$ 503,297

* Includes $9,245,000 of PPP loans at December 31, 2021.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP.

LOANS (continued)

Although we were not already a qualified SBA lender, we enrolled in the PPP by completing the required documentation.

An eligible business was able to apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly "payroll costs;" or (2) $10.0 million. PPP loans had: (a) an interest rate of 1.0%, (b) a two or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Company or 10 months from the end of the covered period, as defined. The SBA guaranteed 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, was eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses. All of the Company's PPP loans have been forgiven by the SBA and the Bank has been fully repaid as of December 31, 2022.

Pursuant to Section 4013 of the CARES Act, financial institutions were permitted to suspend the requirements under U.S. GAAP related to TDRs for modifications made before December 31, 2021 to loans that were current as of December 31, 2019. As of December 31, 2022, all loans that had payments suspended under the CARES Act were current.

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, 2022 and 2021:

	Construction	Commercial Real Estate	Commercial and Industrial	Home Equity	Residential Mortgage and Other Consumer	Unallocated	Total
				(In thousands)			
Year Ended December 31, 2022							
Allowance for loan losses:							
Beginning balance	$ 465	$ 2,675	$ 69	$ 181	$ 2,173	$ 139	$ 5,702
Provisions (credits)	(93)	(89)	(22)	(56)	125	(138)	(275)
Charge-offs	-	-	(12)	-	-	-	(12)
Recoveries	-	-	12	-	-	-	12
Ending balance	$ 372	$ 2,586	$ 47	$ 125	$ 2,298	$ 1	$ 5,427
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, loans not deemed impaired	372	2,586	47	125	2,298	1	5,427
	$ 372	$ 2,586	$ 47	$ 125	$ 2,298	$ 1	$ 5,427
Financing receivables:							
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ 925	$ -	$ -	$ 925
Ending balance, loans not deemed impaired	33,974	258,552	6,371	17,877	274,942	-	$ 591,716
Total loans	$ 33,974	$ 258,552	$ 6,371	$ 18,802	$ 274,942	$ -	$ 592,641

	Construction	Commercial Real Estate	Commercial and Industrial	Home Equity	Residential Mortgage and Other Consumer	Unallocated	Total
				(In thousands)			
Year Ended December 31, 2021							
Allowance for loan losses:							
Beginning balance	$ 448	$ 2,547	$ 87	$ 177	$ 1,980	$ (2)	$ 5,237
Provisions (credits)	17	128	(33)	4	193	141	450
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	15	-	-	-	15
Ending balance	$ 465	$ 2,675	$ 69	$ 181	$ 2,173	$ 139	$ 5,702
Ending balance, individually evaluated and deemed impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, loans not deemed impaired	465	2,675	69	181	2,173	139	5,702
	$ 465	$ 2,675	$ 69	$ 181	$ 2,173	$ 139	$ 5,702
Financing receivables:							
Ending balance, individually evaluated and deemed impaired	$ -	$ 301	$ -	$ 1,001	$ 1,440	$ -	$ 2,742
Ending balance, loans not deemed impaired	35,749	243,207	16,235	16,437	196,180	-	507,808
Total loans	$ 35,749	$ 243,508	$ 16,235	$ 17,438	$ 197,620	$ -	$ 510,550

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, 2022 and 2021:

	December 31, 2022			
	Construction	Commercial Real Estate	Commercial and Industrial	Total
	(In thousands)			
Pass	$ 33,371	$ 251,596	$ 6,343	$ 291,310
Watch		5,529	28	5,557
Special mention	603	1,427	-	2,030
Substandard	-	-	-	-
Total	$ 33,974	$ 258,552	$ 6,371	$ 298,897

	December 31, 2021			
	Construction	Commercial Real Estate	Commercial and Industrial	Total
	(In thousands)			
Pass	$ 34,568	$ 239,347	$ 16,055	$ 289,970
Watch	-	2,960	65	3,025
Special mention	1,181	900	115	2,196
Substandarad	-	301	-	301
Total	$ 35,749	$ 243,508	$ 16,235	$ 295,492

LOANS (concluded)

Age Analysis of Past Due Loans Receivable

	December 31, 2022					
	31-60	61-90	Over 90	Total Past Due	Current	Total
	(In thousands)					
Construction	$ -	$ -	$ -	$ -	$ 33,974	$ 33,974
Commercial real estate	111	-	-	111	258,441	258,552
Commercial and industrial	-	-	-	-	6,371	6,371
Home equity	-	-	925	925	17,877	18,802
Residential mortgage and other consumer	856	-	-	856	274,086	274,942
	$ 967	$ -	$ 925	$ 1,892	$ 590,749	$ 592,641

	December 31, 2021					
	31-60	61-90	Over 90	Total Past Due	Current	Total
	(In thousands)					
Construction	$ -	$ -	$ -	$ -	$ 35,749	$ 35,749
Commercial real estate	112	-	-	112	243,396	243,508
Commercial and industrial	40	-	-	40	16,195	16,235
Home equity	-	-	1,001	1,001	16,437	17,438
Residential mortgage and other consumer	-	-	162	162	197,458	197,620
	$ 152	$ -	$ 1,163	$ 1,315	$ 509,235	$ 510,550

As of December 31, 2022, there was one loan totaling $925,000 over 90 days past due and on non-accrual status. As of December 31, 2021, there were seven loans totaling $2,742,000 over 90 days past due and on non-accrual status.

At December 31, 2022 and 2021, the Bank held no TDR classified loans. No loans were modified as part of a troubled debt restructuring during the years ended December 31, 2022 or 2021. Additionally, there were no troubled debt restructurings at December 31, 2022 or 2021 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, 2022 and 2021 is as follows:

	2022	2021
	(In thousands)	
Beginning balance	$ 17,599	$ 15,898
Advances	1,559	8,405
Less: repayments	(3,135)	(6,704)
Ending balance	$ 16,023	$ 17,599

At December 31, 2022 and 2021, these loans were current as to payment of principal and interest.

At December 31, 2022 and 2021, deposits from related parties totaled approximately $33,267,000 and $43,315,000, respectively.

The Bank's Guttenberg office location was leased for a ten year period that ended May 31, 2021 from an entity whose ownership includes certain members of the Bank's Board of Directors. This lease was renewed for a five year period ending May 31, 2026. Payments under this lease during both 2022 and 2021 totaled approximately $116,000.

5. PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2022 and 2021 were as follows:

	2022	2021
	(In thousands)	
Leasehold improvements	$ 2,954	$ 2,960
Furniture and equipment	1,008	968
Computer hardware and software	60	79
	4,022	4,007
Less: accumulated depreciation and amortization	(2,600)	(2,108)
Premises and equipment, net	$ 1,422	$ 1,899

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2022 and 2021 was approximately $606,000 and $624,000, respectively.

6. LEASES

The Bank has operating leases for its administrative office and branch locations. These leases have remaining lease terms from five months to five years. Two of the options to extend have been included in the lease term as extensions have been executed for these two locations. None of the other options to extend have been included in the lease term as it was determined that it was not reasonably certain that we will exercise the option. The Bank does not have any material short term leases.

The components of lease expense for the years ended December 31, 2022 and 2021 are as follows:

	December 31,	
	2022	2021
	(In thousands)	
Operating lease cost	$ 643,000	$ 646,000

Weighted Average Remaining Lease Term (in years)	
Operating leases	5.0
Weighted Average Discount Rate	
Operating leases	1.7%

LEASES (concluded)

Maturities of lease liabilities are as follows:

Year Ending December 31,	Amount (In thousands)
2023	$ 609
2024	683
2025	701
2026	660
2027	600
Thereafter	374
Total lease payments	3,627
Less imputed interest	(55)
Total lease liability	$ 3,572

7. DEPOSITS

Deposits at December 31, 2022 and 2021 were as follows:

	2022	2021
	(In thousands)	
Demand, noninterest bearing	$ 86,075	$ 79,940
Money market and NOW accounts	163,672	180,220
Savings	57,220	114,056
Total non-certificate accounts	306,967	374,216
Term certificates of $250,000 or more	99,516	42,454
Term certificates less than $250,000	131,946	98,538
Total certificate accounts	231,462	140,992
	$ 538,429	$ 515,208

The scheduled maturities of certificates of deposit at December 31, 2022 are as follows:

December 31,	Amount
	(In thousands)
2023	$ 190,043
2024	38,254
2025	3,083
2026	75
2027	7
	$ 231,462

8. BORROWINGS

The Bank has a $15,000,000 overnight unsecured line of credit with CenterState Bank signed in July 2019. At December 31, 2022 and 2021, 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, 2022 and 2021, there were no advances outstanding with ACBB.

FHLB borrowings at December 31, 2022 and 2021 consist of the following:

	2022		2021	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
2022	$ -	0.00%	$ 1,700	1.90%
2023	17,450	3.59	8,901	2.22
2024	10,000	1.99	10,000	1.99
2025	10,750	1.15	10,750	1.15
2026	-	0.00	-	0.00
	$ 38,200	2.42%	$ 31,351	1.76%

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 $32 million Municipal Letter of Credit with the FHLB with no amounts outstanding as of December 31, 2022 or 2021.

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, 2022 and 2021 consisted of the following:

	2022	2021
	(In thousands)	
Current income tax expense:		
Federal	$ 2,218	$ 1,815
State	634	850
	2,852	2,665
Deferred income tax benefit:		
Federal	(49)	(100)
State	34	(147)
	(16)	(247)
	$ 2,836	$ 2,418

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, 2022 and 2021, respectively, is as follows:

	2022	2021
	(In thousands)	
Computed expected federal income tax	$ 2,357	$ 1,873
Increase (decrease) in income tax expense resulting from:		
State income taxes, net of federal benefit	527	556
Bank owned life insurance income	(38)	(46)
Other	(10)	35
	$ 2,836	$ 2,418

The net deferred tax asset consists of the following at December 31, 2022 and 2021:

	2022	2021
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,413	$ 1,409
Organizational costs	4	18
Employee benefit and share based compensation plans	236	187
Accrued compensation	108	17
Deferred Loan Fees	-	129
Nonaccrual interest	16	44
Other	9	18
	$ 1,787	$ 1,822
Deferred Tax Liabilities:		
Premises and equipment	(92)	(173)
Unrealized gain on available-for-sale securities	-	(1)
	(92)	(174)
	1,695	1,648

At December 31, 2022 and 2021, the Bank had no uncertain income tax positions. Federal and state income tax returns of the Bank for the years 2021, 2020 and 2019 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, 2022 and 2021, 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 2022 and 2021. For the years ended December 31, 2022 and 2021, total 401(k) benefit plan contribution expense was $214,000 and $206,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. 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, 2022, the Bank had the following financial instruments, whose contract amounts represented credit risk.

	2022	2021
	(In thousands)	
Loan commitments	$ 8,907	$ 27,434
Unfunded commitments under lines of credit	55,462	76,392
Standby letters of credit	1,347	1,410
Undisbursed construction loans	50,055	22,808

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.

COMMITMENTS AND CONTINGENCIES (concluded)

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.

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.

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).

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 per share and may be exercised until April 2021. As of December 31, 2022, 262,943 warrants have been exercised. All unexercised warrants have expired.

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, 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, 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. The Company has less than $3 billion in assets and meets certain other requirements and therefore is not subject to the Bank Holding Company Capital Requirements.

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, 2022						
Total Capital (to Risk-Weighted Assets)	$74,315	13.65%	$43,548	8.00%	$54,435	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	68,888	12.66%	32,661	6.00%	43,548	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	68,888	12.66%	24,496	4.50%	35,383	6.50%
Tier 1 Capital (to Average Assets)	68,888	10.71%	25,721	4.00%	32,151	5.00%
December 31, 2021						
Total Capital (to Risk-Weighted Assets)	$66,029	14.04%	$37,630	8.00%	$47,038	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	60,327	12.83%	28,223	6.00%	37,630	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	60,327	12.83%	21,167	4.50%	30,574	6.50%
Tier 1 Capital (to Average Assets)	60,327	9.87%	24,450	4.00%	30,563	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 Company'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 provided 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. The 2008 Equity Compensation Plan has expired.

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, 2022 and 2021, the Company recorded $174,000 of share-based compensation expense.

There were no forfeitures for the year-ended December 31, 2022. There were 105,267 options vested as of December 31, 2022. Expected future compensation expense relating to the non-vested options outstanding as of December 31, 2022 is $29,000 and will be recognized over a weighted average period of .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, 2022 and 2021, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Mortgage-backed securities	$ 66	$ -	$ 66	$ -
	$ 66	$ -	$ 66	$ -

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Mortgage-backed securities	$ 131	$ -	$ 131	$ -
	$ 131	$ -	$ 131	$ -

There were no financial assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2022 and 2021.

17. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Actions taken domestically and across the world to help mitigate the spread of the coronavirus included and continue to include restrictions on travel and required quarantine in certain exposure situations.

It is unknown how long the adverse conditions associated with the coronavirus pandemic will last and what the complete financial effect will be to the Company.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 9, 2023, 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.

BUILDING A LEGACY

Annual Report **2022**

Freedom Bancorp, Inc.

BUILDING A LEGACY

As we face unprecedented times one thing that has not waivered is the dedication of our board of directors, executives, and staff. We are fortunate to have directors who are the founders of the bank and an executive team with over 223 combined years of knowledge and commitment that will continue to build the legacy of Freedom Bank. In the past few years, we have expanded our branch network and digital platform to allow us to grow and provide even better services and tools, give more to our customers and communities and to ensure Freedom Bank is the best place to work. We will continue our focus of building a legacy by bringing you value and strive to be your community bank for years to come.

"Freedom Bank saw unparalleled loan growth in 2022 of over 16%. Our legal lending limit now tops $11 Million dollars. We are one of the few financial institutions in the area that provides commercial real estate loans for as little as $200,000 with the same service and vigor as those that are in the millions. We assisted all of our Paycheck Protection Program loan customers to achieve 100% forgiveness in 2022.

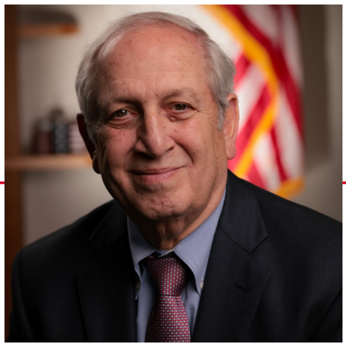
We have strong ties to the community in which we serve. Our customers have come to us through word of mouth, many of which are now repeat customers. We are well positioned to continue to provide superior service for an equally strong 2023!"

DIANE SCRIVERI
EVP, Chief Lending Officer, Freedom Bank

223 YEARS

of Combined Knowledge and Commitment

48 years
of experience



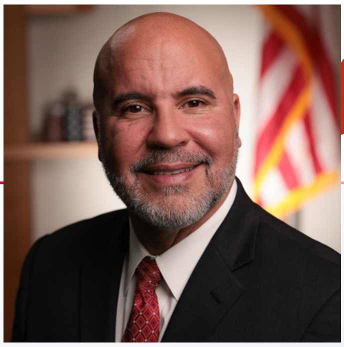
JOEL SWEREN
EVP, Chief Financial Officer

47 years
of experience

DIANE SCRIVERI
EVP, Chief Lending Officer

Photo courtesy of:
THE SCOUT GUIDE

40 years
of experience



CARLO OROPESA
EVP, Team Leader

33 years
of experience

MATTHEW CARCICH
President & CEO

32 years
of experience

JENNIFER FLOOD
EVP, Corporate Secretary

23 years
of experience

JESSICA DOYLE
EVP, Director
of Compliance

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