TRANSFORMING CHALLENGES INTO OPPORTUNITIES

Annual Report **2023**

Freedom Bancorp, Inc.

OUR FELLOW SHAREHOLDERS,

It is our sincere privilege to provide the financial performance report of Freedom Bancorp for 2023. In this Shareholder Report entitled "Transforming Challenges into Opportunities," we highlight Freedom Bank's resilience during what many have dubbed "the next banking crisis." Despite battling fierce deposit competition, the most severe interest rate hikes in U.S. history, an inverted interest rate curve, and news reports of bank failures and weaknesses, Freedom Bank stayed true to its core beliefs and to its mission of remaining the premier community bank in the State of New Jersey.

Coming off the banner year of 2022, Freedom Bank faced unprecedented earnings challenges throughout 2023 due to the compression of its net interest rate margin. We successfully overcame the obstacles and compiled a very successful year by many measures: strong and steady growth in both loans and deposits, the continued pristine performance of the loan portfolio, and the third highest level of net earnings in franchise history.

Listed below are some of the key financial performance metrics for 2023:

- **Total assets grew from $651.8 million to $707.4 million in 2023**
- **Total loans increased to $636.9 million from $591.2 million in 2022**
- **Total deposits rose to $555.0 million compared to $538.4 million for the previous year end**
- **Net income decreased to $4.54 million from a record $8.39 million in 2022**
- **Return on Equity decreased from 17.11% to 7.78%**
- **Delinquent loans remained nominal at .33% percent versus .32% the previous year**
- **Book value increased from $26.91 in 2022 to $29.48 at the end of 2023**

As Freedom Bank enters 2024 and beyond, our commitment to our customers and shareholders remains constant and resolute. We continue to provide our community with quality, high-tech, high-touch banking products and solutions. We continue to drive responsible earnings to our shareholders, by using diligence and time-tested approaches to community banking. In reaction to the highly publicized and ongoing liquidity "issue" facing the banking sector, Freedom has leveraged newly acquired personnel talent to expand our depository offerings into the governmental, municipal and corporate sectors. We see tremendous opportunity in this arena, providing for significant increases in liquidity for years to come.

We were very proud to declare our first special dividend to our shareholders at the end of 2023. Based on our strong performance over the years, your Board of Directors declared a special cash dividend of $.50 per share of common stock. We sincerely appreciate the support we have received over the years from our shareholder group, and despite the current economic challenges in front of us, we remain extremely confident in our future growth and financial performance.

Please join us at the Annual Shareholders Meeting on Tuesday, April 30, 2024, at 6pm at the Bacari Grill in the Township of Washington. We look forward to discussing our strategic vision and initiatives for the upcoming years.

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

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

JENNIFER FLOOD
Executive Vice President
& Corporate Secretary

THOMAS G. GUINAN
Executive Vice President of
Corporate & Government Banking

JOEL C. SWEREN
Executive Vice President
& Chief Financial Officer

CARLO OROPESA
Executive Vice President
& Team Leader

DIANE SCRIVERI
Executive Vice President
& Chief Lending Officer

JESSICA CONWAY
Executive Vice President
& Director of Compliance

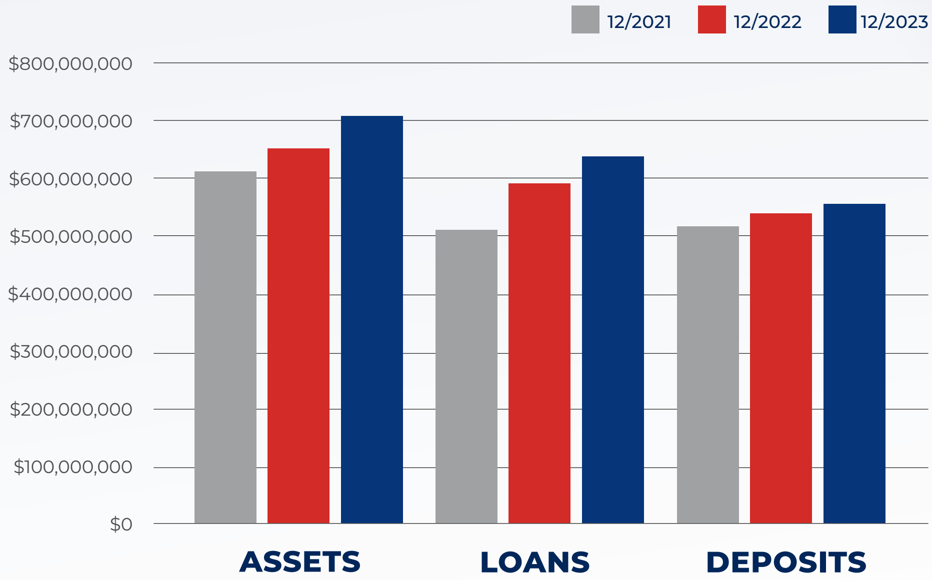
Freedom Bank

SENIOR OFFICERS

PAUL KEATING
Senior Vice President &
Senior Credit Officer

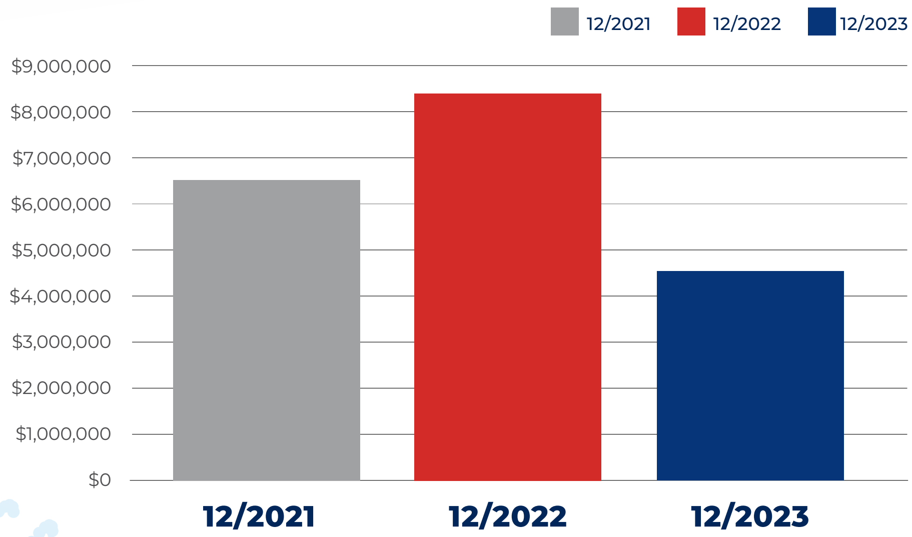
BALANCE SHEET

The balance sheet below highlights our Assets, Loans and Deposits from 2021, 2022 and 2023



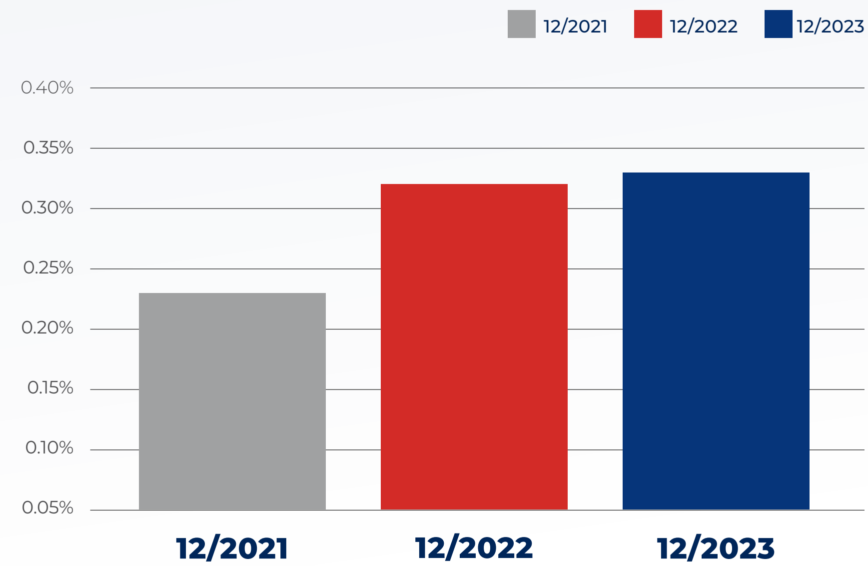
NET INCOME

The chart below shows our net income for the years ended 12/2021, 12/2022 and 12/2023



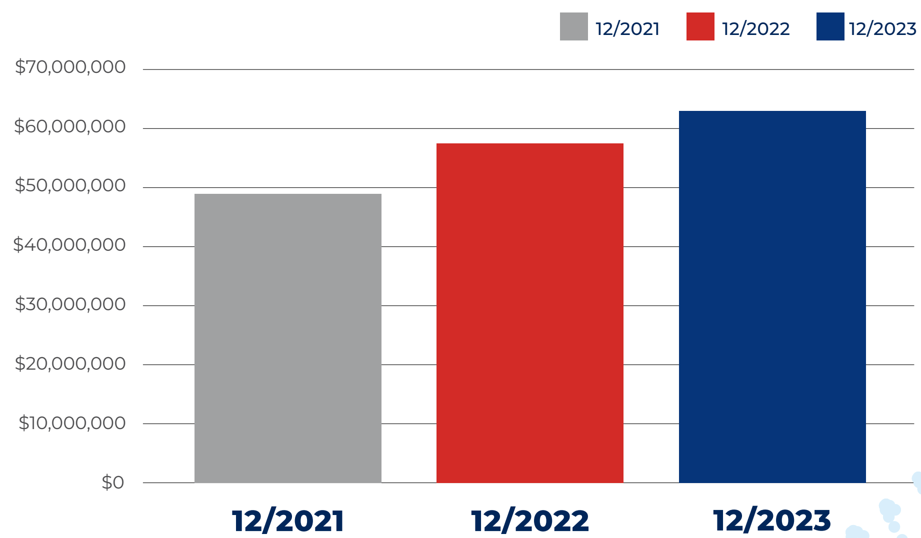
DELINQUENCY RATIO

The chart below depicts our delinquency ratio of loans which are contractually 30 days delinquent or more. The chart reflects 12/2021, 12/2022 and 12/2023



STOCKHOLDERS' EQUITY

This chart below shows our Stockholders' Equity from 12/2021, 12/2022 and 12/2023



WOLF & COMPANY, P.C.

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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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, 2023 and 2022, the related consolidated statements of net 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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January, 1, 2023 upon the adoption of Accounting Standards Codification Topic 326, Financial Instruments – Credit Losses ("ASC 326"). Our opinion is not modified with respect to this matter.

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 available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 7, 2024

Freedom Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31			
	2023		2022	
	(In thousands)			
Assets				
Cash and due from banks	$	4,025	$	3,899
Federal funds sold		18,250		4,208
Cash and cash equivalents		22,275		8,107
Certificates of deposit with banks		31		32
Securities available for sale, at fair value		59		66
Securities held to maturity (fair value of $25,799 in 2023 and $31,744 in 2022)		28,733		35,424
Loans, net of allowance for credit losses of $4,151 in 2023 and $5,427 in 2022		632,769		585,753
Premises and equipment, net		1,176		1,422
Accrued interest receivable		4,309		3,853
Restricted equity securities		4,066		2,445
Deferred income taxes		1,488		1,695
Bank-owned life insurance		9,039		8,844
Other assets		3,476		4,158
	$	707,421	$	651,798
Liabilities and Shareholders' Equity				
Deposits:				
Non-interest bearing	$	75,906	$	86,075
Interest bearing		479,073		452,354
Total deposits		554,979		538,429
Borrowings		70,750		38,200
Subordinated debentures		12,000		12,000
Accrued interest payable		1,160		598
Other liabilities		5,556		5,078
Total liabilities		644,444		594,305
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		13,501		13,472
Treasury stock, at cost (146,015 shares)		(2,437)		(2,437)
Retained earnings		40,501		35,045
Accumulated other comprehensive income		-		1
Total shareholders' equity		62,977		57,493
	$	707,421	$	651,798

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,	
	2023	2022
	(In thousands)	
Interest and dividend income:		
Loans, including fees	$ 34,447	$ 27,666
Securities	949	694
Interest-bearing deposits and other	64	31
Federal funds sold	985	358
Total interest and dividend income	36,445	28,749
Interest expense:		
Deposits	14,261	4,277
Borrowings	3,135	1,372
Total interest expense	17,396	5,649
Net interest income	19,049	23,101
Provision for (reversal of) credit losses	125	(275)
Net interest income, after provision for (reversal of) credit losses	18,924	23,376
Non-interest income:		
Service charges and fees	315	326
Bank-owned life insurance	195	186
Total non-interest income	510	512
Non-interest expenses:		
Salaries and employee benefits	7,339	7,197
Occupancy and equipment	1,361	1,519
Professional fees	1,199	928
Data processing	1,207	988
Advertising and promotion	408	364
Other	1,962	1,669
Total non-interest expenses	13,476	12,664
Income before income taxes	5,958	11,224
Provision for income taxes	1,414	2,836
Net income	$ 4,544	$ 8,388

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, 2023 and 2022

	Common Stock			Treasury Stock			Accumulated	
			Additional				Other	Total
			Paid-in			Retained	Comprehensive	Shareholders'
	Shares	Amount	Capital	Shares	Amount	Earnings	Income	Equity
				(Dollars in thousands)				
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
Cumulative change in acccounting principle (1)						912		912
Share-based compensation expense	-	-	29	-	-	-	-	29
Other comprehensive loss	-	-	-	-	-	-	(1)	(1)
Net Income	-	-	-	-	-	4,544	-	4,544
Balance at December 31, 2023	2,282,306	$ 11,412	$ 13,501	146,015	$ (2,437)	$ 40,501	$ -	$ 62,977

(1) Represents adjustment needed to reflect the cumulative impact on retained earnings pursuant to the Company's adoption of Accounting Standards Update 2016-13 for current expected credit losses (CECL). The adjustment presented includes an increase of $1,407,000 ($1,010,000, net of tax) attributable to the change in accounting methodology for estimating the allowance for credit losses related to loans, and a decrease of $137,000 ($98,000, net of tax) related to the reserve for off-balance sheet credit exposures resulting from the Company's adoption of the standard. Amount shown in the table above is presented net of tax.

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,	
	2023	2022
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 4,544	$ 8,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (reversal of) credit losses	125	(275)
Depreciation and amortization expense	463	606
Securities accretion, net	(74)	(52)
Accretion of deferred loan costs	(652)	(1,094)
Deferred income taxes	(151)	(16)
Stock-based compensation expense	29	174
Increase in cash surrender value of bank-owned life insurance	(195)	(186)
Increase in accrued interest receivable	(456)	(482)
(Increase) decrease in prepaid expenses and other	682	(184)
Increase in accrued interest payable	562	234
Increase (decrease) in other liabilities	478	(689)
Net cash provided by operating activities	5,355	6,424
Cash flows from investing activities:		
Decrease (increase) in certificates of deposits with banks	1	(14)
Purchases of securities held to maturity	(984)	(30,658)
Proceeds from maturities, calls and principal repayments of securities	7,756	23,972
Purchases of restricted equity securities	(1,621)	(504)
Redemption of restricted equity securities	-	142
Net increase in loans	(45,222)	(81,087)
Purchases of premises and equipment	(217)	(129)
Net cash used in investing activities	(40,287)	(88,278)

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

Freedom Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Concluded)

Cash flows from financing activities:		
Net increase in deposits	16,550	23,221
Proceeds of FHLB borrowings	32,920	10,000
Repayment of FHLB borrowings	(370)	(3,151)
Net cash provided by financing activities	49,100	30,070
Net change in cash and cash equivalents	14,168	(51,784)
Cash and cash equivalents at beginning of year	8,107	59,891
Cash and cash equivalents at end of year	$ 22,275	$ 8,107
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 16,834	$ 5,415
Income taxes	$ 1,264	$ 3,547

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 credit losses.

While management uses available information to recognize allowance for credit 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 credit 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.

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, 2023 and 2022, the Bank had no realized gains or losses.

Each reporting period, the Company evaluates all securities classified as available-for-sale with a decline in fair value below the amortized cost of the investment to determine whether or not an allowance for credit losses should be recorded. The Company first assesses if there is intent to sell, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through a provision for credit losses charged to earnings. Changes in the allowance shall be recorded in the period of the change as credit loss expense (or reversal of credit loss expense).

The Company measures expected credit losses on held to maturity securities on a collective basis by major security type in accordance with the CECL methodology using discounted cash flow analysis and credit losses are recognized as part of the allowance for credit losses.

Debt securities are placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

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, 2023 and 2022, no impairment has been recognized.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 credit 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.

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 Credit Losses - Loans

Prior to January 1, 2023, the allowance for loan losses was based on an incurred loss methodology and represented the estimate of the risk of loss inherent in the loan portfolio as of the balance sheet date. Effective January 1, 2023, the allowance for credit losses is based on CECL methodology.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term). The allowance for credit losses on loans is established through a provision for credit 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses - Loans (continued)

Management estimates the allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all of the following: the borrower's creditworthiness, changes in lending policy and procedures, changes in nature and volume of the loan portfolio and in the terms of loans, changes in experience, ability and depth of lending management and staff, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, existence and effect of any concentration of credit and changes in the level of such concentrations, effect of other external forces such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio, and the current and forecasted direction of the economic and business environment. Such forecasted information includes: GDP growth, unemployment rates, interest rates and house price indexes amongst others. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2022.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses - Loans (continued)

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.

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, 2023) to unsecured and non-real estate secured personal loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses - Loans (continued)

The Company measures the allowance for credit losses (ACL) using a weighted average remaining maturity ("WARM") methodology. In estimating the ACL, loans and leases are segregated into portfolio segments based on Federal call report codes which classify loans and leases based on the primary collateral supporting the loan and lease. The WARM method uses a historical average annual charge-off rate. This average annual charge-off rate contains loss content over a historical lookback period and is used as a foundation for estimating the credit loss reserve for the remaining outstanding balances of loans in a pool or segment of our loan portfolio at the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments, to determine the unadjusted historical charge-off rate. The calculation of the unadjusted historical charge-off rate is then adjusted for current conditions and for reasonable and supportable forecast periods. Adjustments to historical loss information are considered for qualitative factors such as changes in underwriting standards, lending policies documentation exceptions, and the level of delinquencies and non-accrual loans.

Individually Evaluated Loans

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For loans that are collateral dependent, that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

The Company has off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and commercial letters of credit. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The Company's allowance for credit losses on off-balance sheet credit exposures is recognized as a liability in other liabilities on the consolidated balance sheets, with adjustments to the reserve recognized in the provision for credit losses in the consolidated statements of net income. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Interest Receivable

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Accrued interest receivable on loans of $4,230,000 as of December 31, 2023 is in accrued interest receivable on the consolidated balance sheet.

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, 2023 and 2022.

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. The balances of unrealized losses on available for sale securities were not material at December 31, 2023 and 2022.

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

On January 1, 2023, the Company adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The Company adopted CECL using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet exposures. 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 . Prior periods have not been restated and continue to be presented in accordance with previously applicable GAAP.

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, 2023				
Available for sale:				
Mortgage-backed securities	$ 59	$ -	$ -	$ 59
	$ 59	$ -	$ -	$ 59
Held-to-maturity:				
U.S. government agency securities	$ 5,000	$ -	$ (406)	$ 4,594
U.S. treasury securities	2,793	$ -	$ (12)	2,781
Collateralized mortgage-backed securities	6		-	6
Mortgage-backed securities	20,934	-	(2,516)	18,418
	$ 28,733	$ -	$ (2,934)	$ 25,799
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

The contractual maturity of securities at December 31, 2023 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	$ -	$ -	$ 2,592	$ 2,578
Due in one to five years	-	-	5,201	4,796
Due from five to ten years	59	59	9	9
Due in ten years or later	-	-	20,931	18,416
	$ 59	$ 59	$ 28,733	$ 25,799

There were no sales of securities during the years ended December 31, 2023 or 2022.

At December 31, 2023 and 2022, investment securities held to maturity having a carrying amount of $2,800,000 and $2,200,000, respectively, were pledged to secure public deposits.

As of December 31, 2023 , there are no securities held to maturity on non-accrual status and there are no securities held to maturity past due 90 days or more and still accruing interest. During the year ended December 31, 2023, the Company did not recognize any interest income on non-accrual securities held to maturity.

All of the mortgage-backed securities held by the Company are issued by the U.S. government and its entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a history of no credit losses. The Company reviewed the financial strength of these investments and has concluded that the amortized cost remains supported by the expected future cash flows of the securities.

3. LOANS

Loans at December 31, 2023 and 2022 were as follows:

	2023	2022
	(In thousands)	
Construction	$ 49,251	$ 33,974
Commercial real estate	259,267	258,552
Commercial and industrial	3,579	6,371
Residential 1st mortgage - multi-family	138,779	119,558
Consumer loans:		
Residential 1st mortgage - 1 to 4 family	164,544	151,933
Home equity	18,557	18,802
Other consumer	4,423	3,451
Total consumer loans	187,524	174,186
Total loans	638,400	592,641
Less:		
Allowance for credit losses	(4,151)	(5,427)
Net deferred loan fees	(1,480)	(1,461)
	$ 632,769	$ 585,753

LOANS (continued)

The following table illustrates the impact of ASC 326:

	Pre-ASC 326 Adoption December 31, 2022	As Reported Under ASC 326 January 1, 2023	Impact of ASC 326 Adoption
		(In thousands)	
Assets			
Allowance for credit losses on loans	$ (5,427)	$ (4,020)	$ 1,407
Deferred Tax asset	1,413	1,771	358
Liabilities			
Allowance for credit losses on off-balance sheet credit exposures	-	137	137
Surplus			
Retained earnings, net of tax	35,045	35,957	912

The following represents the composition of the Company's provision for credit loss expense for the year ended December 31, 2023 (in thousands):

Loans	$ 100
Off-balance sheet credit exposures	25
Total provision for credit losses	$ 125

LOANS (continued)

Disaggregation of Allowance for Credit Losses

Activity in the allowance for credit losses for the years ended December 31, 2023 and 2022 and allocations of the allowance to loan segments as of December 31, 2023 and 2022 follows:

	Construction	Commercial Real Estate	Commercial and Industrial	Home Equity	Residential Mortgage and Other Consumer	Unallocated	Total
				(In thousands)			
Year Ended December 31, 2022							
Balance at December 31, 2021	$ 465	$ 2,675	$ 69	$ 181	$ 2,173	$ 139	$ 5,702
Provisions	(93)	(89)	(22)	(56)	125	(140)	(275)
Charge-offs	-	-	(12)	-	-	-	(12)
Recoveries	-	-	12	-	-	-	12
Balance at December 31, 2022	$ 372	$ 2,586	$ 47	$ 125	$ 2,298	$ (1)	$ 5,427
Cumulative effect of change in accounting principle	(323)	(969)	(43)	9	(88)	7	(1,407)
Provision for (reversal of) credit losses	7	(50)	(2)	(16)	40	146	125
Loans charged-off	-	-	-	-	-	-	-
Recoveries of loan previously charged-off	-	-	6	-	-	-	6
Balance at December 31, 2023	$ 56	$ 1,567	$ 8	$ 118	$ 2,250	$ 152	$ 4,151
Allowance for off-balance sheet credit exposures:							
Balance at December 31, 2022	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative effect of change in accounting principle	45	10	12	59	11	-	137
Provision for (reversal of) credit losses	(4)	67	1	(28)	(11)	-	25
Balance at December 31, 2023	$ 41	$ 77	$ 13	$ 31	$ -	$ -	$ 162
December 31, 2023							
Allowance for individually evaluated loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for collectively evaluated loans	56	1,567	8	118	2,250	152	4,151
Total allowance for loan losses	$ 56	$ 1,567	$ 8	$ 118	$ 2,250	$ 152	$ 4,151
Individually evaluated loans	$ -	$ -	$ -	$ 1,207	$ 785	$ -	$ 1,992
Collectively evaluated loans	49,251	259,267	3,579	17,350	306,961		636,408
Total loans	$ 49,251	$ 259,267	$ 3,579	$ 18,557	$ 307,746	$ -	$ 638,400
December 31, 2022							
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for non-impaired loans	372	2,586	47	125	2,298	(1)	5,427
Total allowance for loan losses	$ 372	$ 2,586	$ 47	$ 125	$ 2,298	$ (1)	$ 5,427
Loans deemed impaired	$ -	$ -	$ -	$ 925	$ -	$ -	$ 925
Loas 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

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, 2023 and 2022:

	December 31, 2023			
	Construction	Commercial Real Estate	Commercial and Industrial	Total
	(In thousands)			
Pass	$ 48,022	$ 253,767	$ 3,579	$ 305,368
Watch	1,229	2,560	-	3,789
Special mention	-	2,940	-	2,940
Substandard	-	-	-	-
Total	$ 49,251	$ 259,267	$ 3,579	$ 312,097

	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

LOANS (concluded)

Age Analysis of Past Due Loans Receivable

	December 31, 2023					
	31-60	61-90	Over 90	Total Past Due	Current	Total
	(In thousands)					
Construction	$ -	$ -	$ -	$ -	$ 49,251	$ 49,251
Commercial real estate	-	-	-	-	259,267	259,267
Commercial and industrial	-	-	-	-	3,579	3,579
Home equity	116	-	1,207	1,323	17,234	18,557
Residential mortgage and other consumer	-	-	785	785	306,961	307,746
	$ 116	$ -	$ 1,992	$ 2,108	$ 636,292	$ 638,400

	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

As of December 31, 2023, there were three loans totaling $1,992,000 over 90 days past due and on non-accrual status. There was no allowance for credit loss on non-accrual loans as of December 31, 2023. As of December 31, 2022, there was one loan totaling $925,000 over 90 days past due and on non-accrual status.

In connection with the adoption of ASU 2106-13, the Company no longer provides information on impaired loans. A loan is considered individually evaluated when the borrower is experiencing financial difficulty and repayment of both principal and interest is expected to be provided substantially through the operation or sale of the collateral. At December 31, 2023, the Company had $1,992,000 in individually evaluated loans, collateralized by residential real estate.

As of December 31, 2023 and 2022, there were no loans modified to borrowers experiencing financial difficulty. Additionally, there were no loans modified to borrowers experiencing financial difficulty at December 31, 2023 and 2022 that 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, 2023 and 2022 is as follows:

	2023	2022
	(In thousands)	
Beginning balance	$ 16,023	$ 17,599
Advances	4,315	1,559
Less: repayments	(4,955)	(3,135)
Ending balance	$ 15,383	$ 16,023

At December 31, 2023 and 2022, these loans were current as to payment of principal and interest.

At December 31, 2023 and 2022, deposits from related parties totaled approximately $38,626,000 and $33,267,000, 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 2023 and 2022 totaled approximately $116,000 per year.

5. PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2023 and 2022 were as follows:

	2023	2022
	(In thousands)	
Leasehold improvements	$ 1,605	$ 2,954
Furniture and equipment	731	1,008
Computer hardware and software	81	60
	2,417	4,022
Less: accumulated depreciation and amortization	(1,241)	(2,600)
Premises and equipment, net	$ 1,176	$ 1,422

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2023 and 2022 was approximately $463,000 and $606,000, respectively.

6. LEASES

The Bank has operating leases for its administrative office and branch locations. These leases have remaining lease terms from twelve months to four and one-half years. No 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.

Lease expense for the years ended December 31, 2023 and 2022 is as follows:

	December 31,	
	2023	2022
	(In thousands)	
Operating lease cost	$ 662,000	$ 643,000

	2023	2022
Weighted Average Remaining Lease Term (in years)		
Operating leases	3.0	5.0
Weighted Average Discount Rate		
Operating leases	1.7%	1.7%

LEASES (concluded)

Maturities of lease liabilities are as follows:

Year Ending December 31,	Amount (In thousands)
2024	$ 681
2025	701
2026	661
2027	600
2028	287
Thereafter	87
Total lease payments	3,017
Less imputed interest	(48)
Total lease liability	2,969

7. DEPOSITS

Deposits at December 31, 2023 and 2022 were as follows:

	2023	2022
	(In thousands)	
Demand, noninterest bearing	$ 75,906	$ 86,076
Money market and NOW accounts	168,811	163,671
Savings	21,432	57,220
Total non-certificate accounts	266,149	306,967
Term certificates of $250,000 or more	141,076	99,516
Term certificates less than $250,000	147,754	131,946
Total certificate accounts	288,830	231,462
	$ 554,979	$ 538,429

The scheduled maturities of certificates of deposit at December 31, 2023 are as follows:

Year Ending December 31, 2023	Amount
	(In thousands)
2024	$ 276,539
2025	12,087
2026	146
2027	7
2028	51
	$ 288,830

8. BORROWINGS

The Bank has a $15,000,000 overnight unsecured line of credit with South State Bank signed in July 2019. At December 31, 2023 and 2022 there were no advances outstanding on the line of credit with South State Bank. The Bank also has a $5,000,000 line of credit with ACBB. At December 31, 2023 and 2022, there were no advances outstanding with ACBB.

FHLB borrowings at December 31, 2023 and 2022 consist of the following:

	2023		2022	
Maturing	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
2023	$ -	0.00%	$ 17,450	3.59%
2024	40,000	4.73	10,000	1.99
2025	20,750	2.68	10,750	1.15
2026	10,000	4.10	-	0.00
2027	-	-	-	0.00
	$ 70,750	4.04%	$ 38,200	2.42%

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 $51 million of Municipal Letters of Credit with the FHLB with no amounts outstanding as of December 31, 2023 or 2022.

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 with an initial annual interest rate fixed at 6.50% for the first five years of the term (the "Fixed Interest Rate Period"). From and including July 1, 2023, the interest rate adjusts to a floating rate based on SOFR plus 3.61% until redemption or maturity (the "Floating Interest Rate Period"). The effective interest rate was 8.91% at December 31, 2023. The Notes are scheduled to mature on July 1, 2028. Subject to limited exceptions, the Company could not redeem the Notes for the first five years of the term. The Company paid interest in arrears semi-annually during the Fixed Interest Rate Period. Thereafter, interest is paid quarterly in arrears during the Floating Interest Rate Period for the remaining 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, 2023 and 2022 consisted of the following:

	2023	2022
	(In thousands)	
Current income tax expense:		
Federal	$ 1,198	$ 2,218
State	367	634
	1,565	2,852
Deferred income tax provision (benefit):		
Federal	(31)	(49)
State	(120)	34
	(151)	(16)
	$ 1,414	$ 2,836

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, 2023 and 2022, respectively, is as follows:

	2023	2022
	(In thousands)	
Computed expected federal income tax	$ 1,251	$ 2,357
Increase (decrease) in income tax expense resulting from:		
State income taxes, net of federal benefit	195	527
Bank owned life insurance income	(41)	(38)
Other	9	(10)
	$ 1,414	$ 2,836

The net deferred tax asset consists of the following at December 31, 2023 and 2022:

	2023	2022
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,167	$ 1,413
Organizational costs	-	4
Employee benefit and share based compensation plans	244	236
Accrued compensation	66	108
Non-accrual interest	55	16
State Net Operationg Losses	90	-
Unfunded commitments	46	-
Other	26	9
	$ 1,694	$ 1,787
Deferred Tax Liabilities:		
Premises and equipment	(206)	(92)
	(206)	(92)
	$ 1,488	$ 1,695

At December 31, 2023 and 2022, the Bank had no uncertain income tax positions. Federal and state income tax returns of the Bank for the years 2022, 2021 and 2020 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, 2023 and 2022, 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 2023 and 2022. For the years ended December 31, 2023 and 2022, total 401(k) benefit plan contribution expense was $270,000 and $214,000, 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, 2023, the Bank had the following financial instruments, whose contract amounts represented credit risk.

	2023	2022
	(In thousands)	
Loan commitments	$ 17,644	$ 8,907
Unfunded commitments under lines of credit	55,631	55,462
Standby letters of credit	1,381	1,347
Undisbursed construction loans	39,283	50,055

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. 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, 2023, 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, 2023						
Total Capital (to Risk-Weighted Assets)	$ 78,550	13.63%	$ 46,117	8.00%	$ 57,646	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	74,236	12.88%	34,587	6.00%	46,117	8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	74,236	12.88%	25,941	4.50%	37,470	6.50%
Tier 1 Capital (to Average Assets)	74,236	10.55%	28,142	4.00%	35,177	5.00%
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%

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 estimated 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 was based on the U.S. Treasury yield curve in effect at the time of grant. The estimated forfeiture rate was 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 was recognized on a straight-line basis over the requisite service period of the awards. During the year ended December 31, 2023 the Company recorded $29,000 and in 2022, the Company recorded $174,000 of share-based compensation expense.

There were no forfeitures for the year-ended December 31, 2023. All 131,267 options have vested as of December 31, 2023. There is no expected future compensation expense to be recognized as of December 31, 2023. 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, 2023 and 2022, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Mortgage-backed securities	$ 59	$ -	$ 59	$ -
	$ 59	$ -	$ 59	$ -

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

There were no financial assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2023 and 2022.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 7, 2024, 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.

TRANSFORMING CHALLENGES INTO OPPORTUNITIES

Annual Report **2023**

FREEDOM BANCORP, INC.

BUILDING RESILIENCE

TRANSFORMING CHALLENGES INTO OPPORTUNITIES

Unwavering Determination

Freedom Bank stayed the course during a very challenging economic year. We continued to lend money and assisted many existing and new clients with opportunistic purchases and refinances. Our portfolio remains pristine even as interest rates and property expenses rose. We experienced better-than-peer loan growth of 7.7%. Throughout the year, the lending team didn't waiver and capitalized on business they sought personally from existing and new referral sources. It is our privilege, honor, and responsibility to provide products and services to assist those in our community to thrive.

"In this fast-paced market, a bank that provides personalized services and quick deal closures is vital for expanding a landlord's portfolio. Freedom Bank acts not just as a financier but as a trusted partner and is key to our success."

Brian J. Drost Jr.
Principal of
Drost Development

LOOKING FORWARD

We continue to source new business opportunities while always providing the products and services our customers deserve and expect from us. Our commitment to high-tech, high-touch has not waivered as we continue to ensure we have the latest technology available to our customers from both a product and services perspective and an information technology perspective. We live and work in the communities we serve and have earned a network of clients that we build relationships and friendships with. Our desire is to successfully grow together.

Corporate and Government Banking Division

At the tail end of 2023, Freedom Bank seized the opportunity to significantly enhance our government and corporate banking initiative and acquired talented individuals to focus on collaborating with centers of influence in those industries.

We have a proven platform for success and expect to forge many new relationships in 2024 and beyond. The division leader, Thomas Guinan, has developed corporate deposit and loan business in the Northern NJ market for decades and the First Vice President, Joseph Luppino, came to us with decades of experience and credentials in municipal government having served as Bergen County's CFO for many years. This new division will expand our roots in the communities we serve and build value for the future.

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