First Resource Bancorp, Inc.

2023 ANNUAL REPORT

2023 LEADERSHIP

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JOSEPH J. DISCIULLO
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RICHARD D. ORLOW
Counsel, Piazza Management Company

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KRISTEN FRIES
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Executive Vice President & Chief Credit Officer

BRIDGET M. MORAN
Executive Vice President & Chief Operating Officer

LETTER FROM OUR LEADERSHIP

Dear Shareholders,

Our Board of Directors and Senior Management are proud to present our 2023 Annual Report, showcasing a remarkable performance amidst a challenging interest rate landscape. First Resource Bank achieved its thirteenth consecutive year of record profitability reporting net income of $5,925,995 for the fiscal year ending on December 31, 2023. In addition, total assets exceeded $600 million for the first time at December 31, 2023, marking a significant milestone. Our exceptional results can be attributed to robust growth in both loans and deposits, effective overhead expense management and the resolution of stressed credits from the prior year. We have always prioritized the responsible and sustainable expansion of our banking franchise. Our successful execution of the Bank's strategic plan has not only facilitated this growth but also contributed to another year of record annual earnings.

Other notable highlights for 2023 include:

- Net income grew 5%
- Total loans grew 16%
- Total deposits grew 16%
- Total assets exceeded $600 million
- Total interest income grew 42%
- Book value per share grew 15% to $14.91 per share.
- Earnings per share improved 5% to $1.92
- Completed a 5% stock dividend in June 2023
- There were no non-accrual or non-performing loans as of December 31, 2023
- Return on assets of 1.09%
- Return on equity of 13.77%
- Named the Best Bank in Chester County for the seventh consecutive year by the readers of The Daily Local News
- Named the Best Community Bank on the Main Line by readers of the Main Line Today for the third straight year
- Earned our fifth consecutive "Best Place to Work" designation by the Philadelphia Business Journal

Our goal is to continue to grow First Resource Bank to achieve economies of scale. This past year was challenging, leading several of our peers to scale back on growth due to funding constraints or credit concerns among other issues facing the industry. This created opportunities for First Resource Bank to acquire new relationships and expand existing ones. Our growth is always tempered by a strong risk management mindset, allowing us to grow loans 16% without sacrificing credit quality as is evidenced by zero nonperforming loans at December 31, 2023. Loan growth is not possible without deposit growth and a revitalized collaboration between the lending and retail teams played a pivotal role in generating tremendous deposit growth in the highly competitive southeastern Pennsylvania market where our operations are based. Rather than competing solely on rate, our strategy for growing deposits focused on promoting our exceptional customer service and low to no fee products. This company-wide effort, spearheaded by our retail team, is responsible for the 16% deposit growth we achieved this year.

We have strived to resolve stressed credit situations quickly and carefully. We saw the benefit of this approach with net loan recoveries in each of the last two years. In 2023 we also experienced the benefit of the reversal of specific reserves established in the preceding year for a particular stressed loan situation which was fully resolved during 2023.

We experienced net interest margin compression in 2023 resulting from the rapid rise in interest rates that began in 2022; however, net interest income grew year-over-year due to the strong balance sheet growth discussed earlier. Outgrowing the net interest margin compression contributed significantly to the year's net income.

While merger and acquisition activity locally was slow in 2023, we continue to benefit from transactions completed over the past few years. There is an appetite for strong community banks, like First Resource Bank, whose trustworthy reputations have set them apart from the rolled up and mega banks. Our unrivaled attention to the banking needs of our local community strengthened our footprint in the marketplace in 2023 and this traction remains a top priority for the Bank as we head into 2024. We hear from our customers time and again that larger banks cannot deliver the level of customized solutions and excellent customer service that we provide. Our expanded business development team has helped us secure new customer relationships with a primary focus on increasing core deposits. These low-cost deposits are crucial in reducing our cost of funds as we continue to experience challenging interest rate conditions. We are proud to consistently deliver an exceptional customer experience and welcome your referrals. We would love the opportunity to provide banking services to your business associates, friends and family and show them what makes First Resource Bank unique. We truly are an organization Where Customer Satisfaction Comes First.

In September, we announced the upcoming retirement of Co-Founder and CEO, Glenn Marshall scheduled for April 2024, and the appointment of Co-Founder and President Lauren Ranalli to President & CEO at that time. After 19 years of Glenn and Lauren working together here at First Resource Bank, we see this as a seamless transition in our culture, operations, and performance. We have long anticipated and meticulously planned for this transition for many years, and the management team is well-equipped to support the Bank's continued growth in the future.

On behalf of our Board of Directors, leadership team and employees, we thank you for your continued support and investment. If you have any questions about First Resource Bank, First Resource Bancorp, Inc. or would like to learn more about our banking services, please contact our CEO, Glenn Marshall at 610-996-6661 or our President, Lauren Ranalli at 610-561-6014.

Sincerely,

James B. Griffin
Chair of the Board

Glenn B. Marshall
CEO

Lauren C. Ranalli
President

First Resource Bancorp, Inc.

Financial Statements

December 31, 2023 and 2022

FIRST RESOURCE BANCORP, INC.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
First Resource Bancorp, Inc.
Exton, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of First Resource Bancorp, Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income, 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.

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.

Change in Accounting Principle

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

Responsibilities of Management for the Financial Statements

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

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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
February 21, 2024

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

		December 31, 2023		December 31, 2022
ASSETS				
Cash and due from banks	$	23,820,615	$	5,600,869
Time deposits at other banks		100,000		100,000
Securities available for sale, at fair value		17,071,966		25,769,567
Securities held to maturity, net of reserve of credit losses of $2,033 and $-0- at December 31, 2023 and 2022, respectively (fair value of $7,782,958 and $8,012,198 at December 31, 2023 and 2022, respectively)		8,768,874		9,011,975
Loans receivable, net of allowance for credit losses of $4,311,306 and $4,238,927 at December 31, 2023 and 2022, respectively		527,072,815		454,446,850
Restricted investment in bank stock		2,363,000		1,968,600
Premises and equipment, net		7,639,939		7,967,246
Accrued interest receivable		1,769,704		1,228,684
Bank owned life insurance		8,365,665		8,167,726
Other assets		5,644,313		2,463,467
TOTAL ASSETS	$	602,616,891	$	516,724,984
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing	$	95,384,366	$	87,888,933
Interest-bearing		403,906,680		343,075,544
Total deposits		499,291,046		430,964,477
Short-term borrowings		35,000,000		27,196,000
Long-term borrowings		9,530,000		9,530,000
Subordinated debt		5,978,134		5,965,639
Accrued interest payable		812,118		238,834
Other liabilities		5,870,102		2,733,654
TOTAL LIABILITIES		556,481,400		476,628,604
SHAREHOLDERS’ EQUITY				
Preferred stock, 489,769 shares authorized, none issued and outstanding		-		-
Common stock, $1.00 par value; 20,000,000 shares authorized; 3,093,414 and 2,936,756 shares issued and outstanding at December 31, 2023 and 2022, respectively		3,093,414		2,936,756
Additional paid-in capital		19,767,634		18,156,784
Accumulated other comprehensive loss		(1,038,486)		(1,108,493)
Retained earnings		24,312,929		20,111,333
TOTAL SHAREHOLDERS’ EQUITY		46,135,491		40,096,380
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$	602,616,891	$	516,724,984

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2023	Year Ended December 31, 2022
INTEREST INCOME		
Loans receivable, including fees	$ 28,720,976	$ 20,073,378
Securities	510,490	483,581
Other	234,281	177,720
Total interest income	29,465,747	20,734,679
INTEREST EXPENSE		
Deposits	10,060,055	2,767,035
Borrowings	857,433	611,432
Total interest expense	10,917,488	3,378,467
NET INTEREST INCOME	18,548,259	17,356,212
Provision for credit losses	(105,430)	653,214
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	18,653,689	16,702,998
NONINTEREST INCOME		
Service charges and other fees	411,961	381,125
Net gain on sale of SBA loans	-	94,392
Referral fee income	75,649	186,699
Bank owned life insurance income	197,939	189,953
Other	232,981	207,611
Total noninterest income	918,530	1,059,780
NONINTEREST EXPENSE		
Salaries and employee benefits	7,446,666	6,510,625
Occupancy and equipment	1,089,411	977,217
Professional fees	477,344	483,402
Advertising and promotion	274,972	335,278
Data processing	647,812	573,209
FDIC premium expense	455,526	271,966
Software expense	312,666	288,017
Other	1,422,262	1,267,412
Total noninterest expense	12,126,659	10,707,126
Income before federal income tax expense	7,445,560	7,055,652
Federal income tax expense	1,519,565	1,430,551
NET INCOME	$ 5,925,995	$ 5,625,101

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2023	2022
Net income	$ 5,925,995	$ 5,625,101
Other comprehensive gain (loss):		
Unrealized gains (losses) on available-for-sale securities	88,616	(1,490,727)
Tax effect	(18,609)	313,052
Total other comprehensive gain (loss)	70,007	(1,177,675)
Total Comprehensive Income	$ 5,996,002	$ 4,447,426

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	$ 2,928,166	$ 18,067,622	$ 14,486,232	$ 69,182	$ 35,551,202
Net income	-	-	5,625,101	-	5,625,101
Other comprehensive loss	-	-	-	(1,177,675)	(1,177,675)
Issuance of common stock (8,590 shares)	8,590	89,162	-	-	97,752
Balance, December 31, 2022	2,936,756	18,156,784	20,111,333	(1,108,493)	40,096,380
Net income	-	-	5,925,995	-	5,925,995
Cumulative effect of adoption of ASU 2016-13	-	-	(72,402)	-	(72,402)
Other comprehensive gain	-	-	-	70,007	70,007
5% common stock dividend (146,898 shares)	146,898	1,503,956	(1,650,854)	-	-
Cash in lieu of fractional shares on 5% stock dividend	-	-	(1,143)	-	(1,143)
Issuance of common stock (9,760 shares)	9,760	106,894	-	-	116,654
Balance, December 31, 2023	$ 3,093,414	$ 19,767,634	$ 24,312,929	$ (1,038,486)	$ 46,135,491

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2023	2022
OPERATING ACTIVITIES		
Net income	$ 5,925,995	$ 5,625,101
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for (release of) credit losses	(105,430)	653,214
Depreciation and amortization	495,702	420,129
Net amoritization on securities	25,337	40,520
Net amoritization of subordinated debt issuance costs	12,495	12,495
Amortization of servicing rights	16,089	56,962
Accretion of discount of SBA loans	(13,223)	(24,502)
Net accretion of deferred loan origination fees	(517,678)	(605,220)
Deferred tax provision (benefit)	31,621	(265,513)
Bank owned life insurance income	(197,939)	(189,953)
Proceeds from sales of SBA loans	-	1,141,095
SBA loans originated for sale	-	(1,046,703)
Gains on sales of SBA loans originated for sale	-	(94,392)
Increase in accrued interest receivable	(541,020)	(342,357)
Decrease (increase) in other assets	22,714	(35,194)
Increase in accrued interest payable	573,284	94,202
Decrease in other liabilities	(105,661)	(415,164)
Net cash provided by operating activities	5,622,286	5,024,720
INVESTING ACTIVITIES		
Net increase in loans	(72,087,773)	(69,563,186)
Purchases of securities available-for-sale	(7,983,822)	(15,987,030)
Purchases of securities held-to-maturity	-	(1,588,455)
Maturities and principal repayments of securities available-for-sale	16,765,062	32,564,231
Maturities and principal repayments of securities held-for-maturity	220,708	2,118,139
Purchase of restricted bank stock, net	(394,400)	(723,100)
Purchase of premises and equipment	(168,395)	(311,850)
Net cash used for investing activities	(63,648,620)	(53,491,251)
FINANCING ACTIVITIES		
Net increase in deposits	68,326,569	30,977,735
Increase in short-term borrowings	7,804,000	18,196,000
Repayment of long-term borrowings	-	(5,750,000)
Cash in lieu of fractional shares on 5% stock divided	(1,143)	-
Issuance of common stock	116,654	97,752
Net cash provided by financing activities	76,246,080	43,521,487
Increase (decrease) in cash and cash equivalents	18,219,746	(4,945,044)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,600,869	10,545,913
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 23,820,615	$ 5,600,869
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$ 10,344,204	$ 3,284,265
Federal income taxes paid	1,686,981	1,525,000
Initial recognition of operating lease right-of-use asset	3,250,633	-
Initial recognition of operating lease liability	3,250,633	-
NONCASH ACTIVITIES		
5% common stock dividend	$ 1,503,956	$ -

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

First Resource Bank (the "Bank") is incorporated under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank is a full-service bank providing personal and business lending and deposit services. As a state-chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The region served by the Bank is the southeastern area of Pennsylvania.

On May 11, 2022, First Resource Bank formed a holding company, First Resource Bancorp, Inc. (the "Company"). All shareholders in First Resource Bank received one share of the Company in exchange for each share of the Bank stock. The Company owns 100% of the stock in the Bank.

The comparative financial statements include the consolidated financial information for the Company for 2023 and 2022. All significant intercompany accounts and transactions have been eliminated for 2023 and 2022.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Chester, Montgomery and Delaware Counties in Pennsylvania. Note 3 discusses the types of lending that the Company engages in. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Company does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one day periods. As of December 31, 2023 and 2022, the Company had no federal funds sold.

The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

Comprehensive Income

Accounting principles generally recognized in the United States of America 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 securities available-for-sale, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Investment securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income (loss), net of the deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Investment securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by using the interest method over the terms of the securities.

Equity securities are measured at fair value with changes in fair value recognized in net income.

The Company adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to Investment Securities recorded as of December 31, 2023 and for the period ending December 31, 2023 are presented in accordance with the accounting policies described in the following sections.

Allowance for Credit Losses – Held-to-Maturity Securities – After adopting ASU 2016-13

The Company measures expected credit losses on held-to-maturity debt securities, which are comprised of residential mortgage-backed securities, municipal bonds and corporate bonds. The Company's residential mortgage-backed security holdings are issued by U.S. government entities and agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses.

Accrued interest receivable on held-to-maturity debt securities totaled $29 thousand at December 31, 2023 and is included within accrued interest receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of expected credit losses. Held-to-maturity debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held-to-maturity debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed. The Company had no held-to-maturity securities classified as nonaccrual as of December 31, 2023 and December 31, 2022.

Allowance for Credit Losses – Available for Sale Securities – After adopting ASU 2016-13

The Company measures expected credit losses on available-for-sale debt securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

The allowance for credit losses on available-for-sale debt securities is included within Investment securities available-for-sale on the consolidated balance sheet. Changes in the allowance for credit losses are recorded within Provision for credit losses on the Consolidated Statement of Income. Losses are charged against the allowance when the Company believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $18 thousand at December 31, 2023 and is included within accrued interest receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed. The Company had no available-for-sale securities classified as nonaccrual as of December 31, 2023 and December 31, 2022.

Credit Losses on Investment Securities - Prior to adopting ASU 2016-13

The Company adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to Investment Securities recorded as of December 31, 2022 and for the period ending December 31, 2022 are presented in accordance with the accounting policies described in the following section. The following section was carried forward from the Annual Report for the year ended December 31, 2022.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the Consolidated Statements of Income, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable

Loans receivable that management has the intent and 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. Accrued interest receivable totaled $1.7 million at December 31, 2023 and was reported in accrued interest receivable on the Consolidated Balance Sheets and is excluded from the estimate of credit losses. 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 (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial, commercial real estate, and commercial construction loans. Consumer loans consist of the following classes: home equity loans and consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. 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 in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months), and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past-due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses - Loans - After adopting ASU 2016-13

The Company adopted ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326) on January 1, 2023. The following policy related to the ACL in 2023.

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

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

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

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the average charge-off method:

1. Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. These loans can be affected by economic conditions. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment.

2. Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. These loans can be affected by economic conditions and the value of the underlying properties. Commercial real estate loans require a loan to value ratio of not greater than 80 percent. Loan amortizations vary from one year to twenty-five years and terms typically do not exceed 10 years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

3. Commercial construction loans include loans to finance the construction or rehabilitation of either commercial properties or 1-to-4 family residential structures. The vast majority of the commercial construction portfolio finances 1-to-4 family residential properties. Construction loans generally are considered to involve a higher degree of risk of loss than occupied real estate due to uncertainty of construction costs. Inspections are performed prior to disbursement of loan proceeds as construction progresses to mitigate these risks. These loans can also be affected by economic conditions. The commercial construction

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

portfolio is focused on small spot lot builders and smaller building companies. These loans carry variable interest rates and are usually interest only loans with maturities ranging from one year to three years.

4. Home equity loans, home equity lines of credit, residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. These loans can be affected by economic conditions and the value of the underlying property. The risk is considered low on loans in these categories that are secured by first liens. The credit risk is considered slightly higher on loans in these categories with second liens as these loans are dependent on the value of the underlying properties and have the added risk of the subordinate collateral positions. Home equity loans require a loan to value ratio of not greater than 85 percent with limited exceptions. Home equity lines of credit have variable rates. Closed end home equity loans have maturities up to fifteen years and carry fixed interest rates. Residential mortgages have adjustable rates and terms up to thirty years.

5. Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured and therefore are considered to involve a higher risk of loss.

6. Cash collateralized loans consist of loans secured by deposit accounts. These loans have low credit risk as they are fully secured by their collateral.

Historical credit loss experience is the basis for the estimation of expected credit losses. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on National economic forecasts and management judgement. For periods beyond our reasonable and supportable forecast, we revert to historical loss rates. The qualitative adjustments for current conditions are based upon the following risk factors:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.

6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.

7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

8. Effect of external factors, such as competition and legal and regulatory requirements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These modified historical loss rates are multiplied by the outstanding principal balance of each loan over the life of each loan to calculate a required reserve.

The Company has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. Factors considered by management in determining when a loan should be individually evaluated 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. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Allowance for Loan Losses – Prior to adopting ASU 2016-13

Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326) on January 1, 2023: Measurement of Credit Losses on Financial Instruments, the Company calculated our ALL using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. No portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity loans and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained at times 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 specific and general losses in the portfolio.

A majority of the Company's loans are loans to business owners of many types. The Company makes commercial loans for real estate development, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The evaluation of the adequacy of the allowance is based on an analysis which categorizes the entire loan portfolio by certain risk characteristics. The loan portfolio is segmented into loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses.

The majority of the commercial and consumer loans are located in Chester, Montgomery and Delaware Counties in Pennsylvania.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value, or the amount by which its carrying value exceeds its estimated fair value is charged-off. The estimated carrying values of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral or the present value of expected future cash flows.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

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 allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Accounting Pronouncements Adopted in 2023

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

The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities and unfunded commitments. On January 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of $72,402, net of tax, of which a $75,254 decrease related to loans, a $5,660 increase related to unfunded commitments, and a $2,808 decrease related to held-to-maturity securities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
ACL on debt securities held-to-maturity			
Corporate bonds	$ -	$ 3,080	$ 3,080
Municipal bonds	-	474	474
ACL on loans			
Commercial	652,696	(17,581)	635,115
Commercial real estate	2,953,588	192,804	3,146,392
Commercial construction	523,890	(119,594)	404,296
Home equity	99,929	(2,962)	96,967
Consumer, other	8,824	42,591	51,415
Liabilities			
ACL for unfunded commitments	23,244	(7,164)	16,080
	$ 4,262,171	$ 91,648	$ 4,353,819

During the year ended December 31, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were evaluated and included in the loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the ACL was measured using the collateral-dependent or discounted cash flow method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U.S. Small Business Association (SBA) Lending Activities

The Company originates loans to customers in its primary market area under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. The Company generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion (retained interest) in its portfolio. A portion of the premium on the sale of SBA loans is recognized as gain on sale of loans at the time of the sale by allocating the carrying amount between the asset sold and the retained interest, including servicing assets, based on their relative fair values. The remaining portion of the premium is recorded as a discount on the remaining life of the loan as an adjustment to yield. The retained interest, net of any discount, is included in loans receivable in the accompanying balance sheets.

Servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. To determine the fair value of servicing rights, the Company uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses.

Servicing rights are amortized in proportion to, and over the period of, the estimated net servicing income or net servicing loss and measured for impairment based on fair value at each reporting date. The amortization of the servicing rights is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

Serviced loans sold to others are not included in the accompanying balance sheets. Income (losses) and fees collected for loan servicing are included within other income on the statements of income. Servicing fees, which totaled $22,162 and $34,895 for the years ended December 31, 2023 and 2022, respectively, are reported net of amortization of the servicing rights.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, 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 (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Owned Life Insurance

The Company invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of officers. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investment in Bank Stock

Restricted stock at December 31, 2023 and 2022 is comprised of stock in the Federal Home Loan Bank of Pittsburgh (FHLB) in the amount of $2,313,000 and $1,918,600, respectively, and in Atlantic Community Bankers Bank (ACBB) in the amount of $50,000 for both years. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost.

Other Real Estate Owned

Other real estate owned (OREO) is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. Such assets are recorded in other assets in the accompanying balance sheets. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral regardless of whether formal proceedings take place. OREO initially is recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. Any write-downs based on fair value at the date of foreclosure are charged to the allowance for loan losses. If an increase in cost basis results, it is classified as non-interest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and write- downs are included in other expenses. In addition, any gain or loss realized upon disposal is included in other expense. The Company had OREO of $-0- at December 31, 2023 and December 31, 2022.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the useful life, or term of the lease, including renewal options, if reasonably assured, on a straight-line basis.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefit Plans

The Company has established a 401(k) Plan (the "Plan"). All employees are eligible to participate after they have attained the age of 18. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan. During 2023 and 2022, the Company has elected to make a 3 percent safe harbor contribution for all employees. This contribution is vested immediately. The Company's contribution to the Plan for the years ended December 31, 2023 and 2022 was $188,437 and $158,718, respectively.

The Company has implemented non-qualified Supplemental Executive Retirement Plans for certain executive officers that provide for payments upon retirement, death or disability. As of December 31, 2023 and 2022, other liabilities include $711,356 and $644,335 accrued under these plans, respectively. For the years ended December 31, 2023 and 2022, salaries and employee benefits expense includes $67,021 and $87,495 expensed under these plans, respectively.

Income Taxes

Deferred income taxes are provided on the balance sheet method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Off-Balance Sheet Financial Instruments

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

2. SECURITIES

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2023 and 2022, are summarized as follows:

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for Sale					
U.S. government securities	$ 7,997,679	$ -	$ (11,599)	$ -	$ 7,986,080
Mortgage-backed securities in government-sponsored entities	10,388,826	440	(1,303,380)	-	9,085,886
Total	$ 18,386,505	$ 440	$ (1,314,979)	$ -	$ 17,071,966

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
Held to Maturity					
Mortgage-backed securities in government-sponsored entities	$ 2,385,033	$ -	$ (464,247)	$ 1,920,786	$ -
Corporate bonds	1,000,000	-	(159,680)	840,320	1,744
Municipal bonds	5,385,874	-	(364,022)	5,021,852	289
Total	$ 8,770,907	$ -	$ (987,949)	$ 7,782,958	$ 2,033

	2022			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities	$ 14,995,542	$ -	$ (13,392)	$ 14,982,150
Mortgage-backed securities in government-sponsored entities	12,177,180	152	(1,389,915)	10,787,417
Total	$ 27,172,722	$ 152	$ (1,403,307)	$ 25,769,567
Held to Maturity				
Mortgage-backed securities in government-sponsored entities	$ 2,610,837	$ -	$ (489,329)	$ 2,121,508
Corporate bonds	1,000,000	-	(127,470)	872,530
Municipal bonds	5,401,138	52	(383,030)	5,018,160
Total	$ 9,011,975	$ 52	$ (999,829)	$ 8,012,198

2. SECURITIES (CONTINUED)

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by security type and length of time in a continuous loss position:

	2023					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for Sale						
U.S. government securities	$ 7,986,080	$ (11,599)	$ -	$ -	$ 7,986,080	$ (11,599)
Mortgage-backed securities in government-sponsored entities	-	-	9,047,355	(1,303,380)	9,047,355	(1,303,380)
Total	$ 7,986,080	$ (11,599)	$ 9,047,355	$ (1,303,380)	$ 17,033,435	$ (1,314,979)

The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022.

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for Sale						
U.S. government securities	$ 14,982,150	$ (13,392)	$ -	$ -	$ 14,982,150	$ (13,392)
Mortgage-backed securities in government-sponsored entities	4,585,304	(301,133)	6,189,100	(1,088,782)	10,774,404	(1,389,915)
Total	$ 19,567,454	$ (314,525)	$ 6,189,100	$ (1,088,782)	$ 25,756,554	$ (1,403,307)
Held to Maturity						
Mortgage-backed securities in government-sponsored entities	$ 30,348	$ (663)	$ 2,091,160	$ (488,666)	$ 2,121,508	$ (489,329)
Corporate bonds	-	-	872,530	(127,470)	872,530	(127,470)
Municipal bonds	3,850,597	(195,541)	647,511	(187,489)	4,498,108	(383,030)
Total	$ 3,880,945	$ (196,204)	$ 3,611,201	$ (803,625)	$ 7,492,146	$ (999,829)

At December 31, 2023, the fair value of available-for-sale securities in an unrealized loss position for which an allowance for credit losses had not been recorded was $17,033,435, including unrealized losses of $1,314,979. The holdings were comprised of one U.S. government security that has been in a gross unrealized loss position for less than 12 months with depreciation of zero percent from the Company's amortized cost basis. At December 31, 2023, the Company had thirty-seven mortgage-backed securities that have been in a gross unrealized loss position for greater than 12 months with depreciation of thirteen percent from the Company's amortized cost basis.

Unrealized losses on available-for-sale securities have not been recognized into income because the issuers bonds are either explicitly or implicitly guaranteed by the U.S. government, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

There was no allowance for credit losses on securities available-for-sale at December 31, 2023 and no impairment recorded during the year ended December 31, 2022.

2. SECURITIES (CONTINUED)

The following table presents the activity in the allowance for credit losses for debt securities held-to maturity by major security type for the year ended December 31, 2023:

		Beginning Balance		Impact of adopting ASC 326		Charge-offs		Recoveries		Provisions (Reductions)		Ending Balance
Allowance for credit losses:												
Corporate bonds	$	-	$	3,080	$	-	$	-	$	(1,336)	$	1,744
Municipal bonds		-		474		-		-		(185)		289
	$	-	$	3,554	$	-	$	-	$	(1,521)	$	2,033

As of December 31, 2023, no ACL was required for mortgage-backed securities. The Company does not have the intent to sell and does not believe it will be more likely than not to be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

Credit Quality Indicators

The Company monitors the credit quality of debt securities held-to-maturity primarily through utilizing credit rating. The Company monitors the credit rating on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicator:

Held to Maturity		Mortgage-backed securities in governmen sponsored entites		Corporate Bonds		Municipal Bonds
Credit Rating						
AAA/AA/A	$	2,385,033	$	-	$	5,385,874
BBB/BB/B		-		1,000,000		-
Lower than B		-		-		-
Total	$	2,385,033	$	1,000,000	$	5,385,874

The underlying issuers continue to make timely principal and interest payments on the securities.

2. SECURITIES (CONTINUED)

The amortized cost and fair value of securities as of December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	$ 7,997,679	$ 7,986,080	$ -	$ -
Due after one year through five years	-	-	210,000	194,744
Due after five years through ten years	-	-	6,015,874	5,540,014
Due over ten years	-	-	160,000	127,414
	7,997,679	7,986,080	6,385,874	5,862,172
U.S. government mortgage-backed securities - residential	10,388,826	9,085,886	2,385,033	1,920,786
	$ 18,386,505	$ 17,071,966	$ 8,770,907	$ 7,782,958

Securities with a carrying value of $8,339,883 and $9,498,288 at December 31, 2023 and 2022, respectively, were pledged to the Federal Reserve Bank of Philadelphia for discount window borrowings.

During the years ended December 31, 2023 and 2022, there were no securities sold by the Company.

3. LOANS RECEIVABLE

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

	2023	2022
Commercial	$ 50,150,594	$ 42,917,871
Commercial real estate	414,468,024	365,653,885
Commercial construction	49,234,654	35,399,712
Home equity	18,299,094	15,289,288
Consumer, other	778,348	745,483
Total Loans	532,930,714	460,006,239
Unearned net loan origination fees and costs	(1,546,593)	(1,320,462)
Allowance for credit losses	(4,311,306)	(4,238,927)
Net Loans	$ 527,072,815	$ 454,446,850

Loan Sales

The Company originates and sells loans secured by the SBA. The Company retains the unguaranteed portion of the loan and the servicing on the loans sold and receives a fee based upon the principal balance outstanding.

The Company did not have any loan sale activity during the year ended December 31, 2023. During the year ended December 31, 2022, the Company sold one SBA loan originated for sale for total proceeds of $1,141,095 which resulted in realized gains of $94,392. There were no SBA loans originated for sale held at December 31, 2023 and 2022.

3. LOANS RECEIVABLE (CONTINUED)

Loan Sales (Continued)

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $1,636,268 and $2,824,229 at December 31, 2023 and 2022, respectively.

The following summarizes the activity pertaining to the servicing rights using the amortization method for the years ended December 31, 2023 and 2022:

	2023	2022
Beginning balance	$ 31,336	$ 72,546
Additions	-	21,556
Application of valuation allowance	2,889	(5,804)
Amortization	(16,089)	(56,962)
Ending Balance	$ 18,136	$ 31,336

The risks inherent in the servicing rights relate primarily to changes in prepayments that result from shifts in interest rates. The servicing rights are included in other assets in the consolidated balance sheets.

The following summarizes the activity pertaining to the valuation allowance for impairment of servicing rights for the years ended December 31, 2023 and 2022:

	2023	2022
Beginning balance	$ 5,804	$ -
Additions charged to operations	-	5,804
Recoveries credited to operations	(2,889)	-
Ending Balance	$ 2,915	$ 5,804

Changes in the valuation allowance are included in other expenses in the Consolidated Statements of Income.

4. ALLOWANCE FOR CREDIT LOSSES

The following tables summarizes the activity in the allowance for credit losses by loan class for the years ended December 31, 2023 and 2022, and information in regards to the allowance for credit losses and the recorded investment in loans receivable by loan class as of December 31, 2023 and 2022, respectively:

4. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

2023	Commercial	Commercial Real Estate	Commercial Construction	Home Equity Loans	Consumer, Other	Unallocated	Total
Allowance for credit losses:							
Beginning balance:	$ 652,696	$ 2,953,588	$ 523,890	$ 99,929	$ 8,824	$ -	$ 4,238,927
Impact of adopting ASC 326	(17,581)	192,804	(119,594)	(2,962)	42,591	-	95,258
Charge-offs	-	(7,075)	-	-	-	-	(7,075)
Recoveries	6,059	70,686	-	10,000	-	-	86,745
Provisions	(145,992)	(298,197)	353,089	24,847	(36,296)	-	(102,549)
Ending balance	$ 495,182	$ 2,911,806	$ 757,385	$ 131,814	$ 15,119	$ -	$ 4,311,306
Ending balance individually evaluated	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated	$ 495,182	$ 2,911,806	$ 757,385	$ 131,814	$ 15,119	$ -	$ 4,311,306
Loans receivable:							
Individually evaluated	$ 1,529,263	$ 1,243,065	$ -	$ -	$ -	$ -	$ 2,772,328
Collectively evaluated	48,621,331	413,224,959	49,234,654	18,299,094	778,348	-	530,158,386
Ending balance	$ 50,150,594	$ 414,468,024	$ 49,234,654	$ 18,299,094	$ 778,348	$ -	$ 532,930,714

2022	Commercial	Commercial Real Estate	Commercial Construction	Home Equity Loans	Consumer, Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance:	$ 272,435	$ 2,680,824	$ 203,436	$ 63,036	$ 3,248	$ 100,000	$ 3,322,979
Charge-offs	-	(11,340)	-	-	-	-	(11,340)
Recoveries	274,074	-	-	-	-	-	274,074
Provisions	106,187	284,104	320,454	36,893	5,576	(100,000)	653,214
Ending balance	$ 652,696	$ 2,953,588	$ 523,890	$ 99,929	$ 8,824	$ -	$ 4,238,927
Ending balance individually evaluated for impairment	$ 283,340	$ 21,007	$ -	$ -	$ -	$ -	$ 304,347
Ending balance collectively evaluated for impairment	$ 369,356	$ 2,932,581	$ 523,890	$ 99,929	$ 8,824	$ -	$ 3,934,580
Loans receivable:							
Individually evaluated for impairment	$ 1,888,934	$ 903,778	$ -	$ 151,594	$ 113,400	$ -	$ 3,057,706
Collectively evaluated for impairment	41,028,937	364,750,107	35,399,712	15,137,694	632,083	-	456,948,533
Ending balance	$ 42,917,871	$ 365,653,885	$ 35,399,712	$ 15,289,288	$ 745,483	$ -	$ 460,006,239

4. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. This analysis is done for all loans at the time of initial approval and annually for loans with an outstanding balance greater than $1 million. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

4. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Based on the most recent analysis performed, the following table presents the classes of the loan portfolio by internal risk rating system as of December 31, 2023 under ASC 326:

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	2019	Prior			Total
Commercial									
Risk Rating									
Pass	$ 7,967,212	$ 6,838,570	$ 6,101,247	$ 2,286,740	$ 477,230	$ 1,580,836	$ 23,369,496	$ -	$ 48,621,331
Special Mention	-	-	-	-	-	1,151,883	377,380	-	1,529,263
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 7,967,212	$ 6,838,570	$ 6,101,247	$ 2,286,740	$ 477,230	$ 2,732,719	$ 23,746,876	$ -	$ 50,150,594
Commercial and industrial									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate									
Risk Rating									
Pass	$ 67,027,572	$ 91,602,177	$ 106,309,741	$ 52,347,718	$ 37,353,264	$ 58,584,487	$ -	$ -	$ 413,224,959
Special Mention	-	-	-	-	-	1,243,065	-	-	1,243,065
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 67,027,572	$ 91,602,177	$ 106,309,741	$ 52,347,718	$ 37,353,264	$ 59,827,552	$ -	$ -	$ 414,468,024
Commercial real estate									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 7,075	$ -	$ -	$ 7,075
Commercial construction									
Risk Rating									
Pass	$ 28,541,172	$ 14,756,310	$ 5,141,265	$ -	$ 121,621	$ -	$ 674,286	$ -	$ 49,234,654
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 28,541,172	$ 14,756,310	$ 5,141,265	$ -	$ 121,621	$ -	$ 674,286	$ -	$ 49,234,654
Commercial construction									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Home equity									
Risk Rating									
Pass	$ 5,175,758	$ 1,865,973	$ 2,337,805	$ 2,504,277	$ 219,353	$ 2,045,653	$ 3,733,316	$ 416,959	$ 18,299,094
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 5,175,758	$ 1,865,973	$ 2,337,805	$ 2,504,277	$ 219,353	$ 2,045,653	$ 3,733,316	$ 416,959	$ 18,299,094
Home equity									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer, other									
Risk Rating									
Pass	$ 144,402	$ -	$ -	$ 25,176	$ 3,219	$ 494,970	$ 100,792	$ 9,789	$ 778,348
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 144,402	$ -	$ -	$ 25,176	$ 3,219	$ 494,970	$ 100,792	$ 9,789	$ 778,348
Consumer, other									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total									
Risk Rating									
Pass	$ 108,856,116	$ 115,063,030	$ 119,890,058	$ 57,163,911	$ 38,174,687	$ 62,705,946	$ 27,877,890	$ 426,748	$ 530,158,386
Special Mention	-	-	-	-	-	2,394,948	377,380	-	2,772,328
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 108,856,116	$ 115,063,030	$ 119,890,058	$ 57,163,911	$ 38,174,687	$ 65,100,894	$ 28,255,270	$ 426,748	$ 532,930,714

4. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Company's internal risk rating system as of December 31, 2022 under ASC 310:

	2022					
	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, other	Total
Pass	$ 41,028,937	$ 364,750,107	$ 35,399,712	$ 15,158,415	$ 745,483	$ 457,082,654
Special Mention	-	-	-	-	-	-
Substandard	1,888,934	903,778	-	130,873	-	2,923,585
Total	$ 42,917,871	$ 365,653,885	$ 35,399,712	$ 15,289,288	$ 745,483	$ 460,006,239

The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the year ended December 31, 2022 under ASC 310:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	786,341	786,341	-	181,456	-
Commercial construction	-	-	-	-	-
Home Equity	151,594	151,594	-	151,943	8,817
Consumer, other	113,400	113,400	-	115,572	2,310
With an allowance recorded:					
Commercial	$ 1,888,934	$ 1,888,934	$ 283,340	$ 1,787,666	$ 107,009
Commercial real estate	117,437	117,437	21,007	159,110	-
Commercial construction	-	-	-	-	-
Home Equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total:					
Commercial	$ 1,888,934	$ 1,888,934	$ 283,340	$ 1,787,666	$ 107,009
Commercial real estate	903,778	903,778	21,007	340,566	-
Commercial construction	-	-	-	-	-
Home Equity	151,594	151,594	-	151,943	8,817
Consumer, other	113,400	113,400	-	115,572	2,310

4. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2023 and 2022:

2023	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial	$ -	$ -	$ -	$ -	$ 50,150,594	$ 50,150,594	$ -
Commercial real estate	367,711	-	-	367,711	414,100,313	414,468,024	-
Commercial construction	-	-	-	-	49,234,654	49,234,654	-
Home equity	-	-	-	-	18,299,094	18,299,094	-
Consumer, other	-	-	-	-	778,348	778,348	-
Total	$ 367,711	$ -	$ -	$ 367,711	$ 532,563,003	$ 532,930,714	$ -

2022	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial	$ -	$ -	$ -	$ -	$ 42,917,871	$ 42,917,871	$ -
Commercial real estate	46,231	-	897,527	943,758	364,710,127	365,653,885	-
Commercial construction	-	-	-	-	35,399,712	35,399,712	-
Home equity	-	130,873	-	130,873	15,158,415	15,289,288	-
Consumer, other	-	-	-	-	745,483	745,483	-
Total	$ 46,231	$ 130,873	$ 897,527	$ 1,074,631	$ 458,931,608	$ 460,006,239	$ -

4. ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2023 and 2022:

	2023	2022
Commercial	$ -	$ -
Commercial real estate	-	897,527
Commercial construction	-	-
Home equity	-	-
Consumer, other	-	-
	$ -	$ 897,527

Modifications to Borrowers Experiencing Financial Difficulty

The Company may grant a modification to borrowers in financial distress by providing a temporary reduction in interest rate, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

There were no modifications of loans to borrowers experiencing financial difficulty during the year ended December 31, 2023.

There were no payment defaults for loan granted modifications due to a borrower experiencing financial difficulty within twelve months of the modification date, during the year ended December 31, 2023.

As described in Note 1, the Company adopted ASU 2022-02 on January 1, 2023, which eliminated the recognition and measurement of troubled debt restructurings (TDRs). There were no TDRs as of or during the year ended December 31, 2022.

At December 31, 2023 and 2022, the Company had $-0- and $-0-, respectively, of residential real estate held in other real estate owned. At December 31, 2023 and 2022, the Company had initiated foreclosure proceedings on approximately $-0- and $117,437, respectively, of loans secured by residential real estate.

5. PREMISES AND EQUIPMENT

The components of premises and equipment at December 31, 2023 and 2022, are as follows:

	2023	2022
Land	$ 2,609,586	$ 2,609,586
Land improvements	814,031	814,031
Buildings	5,106,117	5,106,117
Leasehold improvements	45,392	37,832
Furniture, fixtures, and equipment	1,659,531	1,648,635
Computer equipment and data processing software	1,292,094	1,142,155
	11,526,751	11,358,356
Less accumulated depreciation	(3,886,812)	(3,391,110)
Total	$ 7,639,939	$ 7,967,246

Depreciation and amortization expense was $495,702 and $420,129 for the years ended December 31, 2023 and 2022, respectively.

6. DEPOSITS

The components of deposits at December 31, 2023 and 2022, are as follows:

	2023	2022
Demand, noninterest-bearing	$ 95,384,366	$ 87,888,933
Demand, interest-bearing	39,760,054	46,526,732
Money market accounts	231,407,653	207,184,086
Time, $250,000 and over	56,243,702	27,646,839
Time, other	76,495,271	61,717,887
Total	$ 499,291,046	$ 430,964,477

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

2024	$ 122,734,677
2025	7,923,445
2026	1,208,050
2027	128,064
2028	744,737
Total	$ 132,738,973

At December 31, 2023 and 2022, the Company had brokered deposits of $17,256,000 and $5,161,000, respectively.

Deposit overdrafts totaling $13,314 and $42,004 at December 31, 2023 and 2022, respectively, are included within Loans receivable on the Consolidated Balance Sheets.

Included in deposit accounts are deposits for two customer relationships totaling $63,031,564 at December 31, 2023. Management believes liquidity is adequate to compensate for these deposit levels.

7. BORROWINGS

Short-term borrowings at December 31, 2023, consist of an advance from the Federal Home Loan Bank (FHLB) of $35,000,000, due January 2, 2024, with interest at 5.72%. Short-term borrowings at December 31, 2022, consist of an advance from the FHLB of $27,196,000, due January 3, 2023, with interest at 4.50%. The Company utilizes overnight borrowings from the FHLB for cash flow needs.

Long-term borrowings at December 31, 2023 and 2022, consisted of FHLB borrowings with the following maturity dates and interest rates:

Description	Maturity Date	Interest Rate	2023	2022
Fixed rate	07/23/24	1.917%	1,500,000	1,500,000
Fixed rate	08/07/24	1.557%	1,780,000	1,780,000
Fixed rate	01/08/25	1.709%	2,000,000	2,000,000
Fixed rate	03/16/26	1.236%	1,850,000	1,850,000
Fixed rate	03/01/27	1.309%	2,400,000	2,400,000
Total			$ 9,530,000	$ 9,530,000

Borrowings from the FHLB are secured by a blanket lien on the Bank's assets. The Bank has a maximum borrowing capacity with the FHLB of approximately $289,399,610 at December 31, 2023. At December 31, 2023, the Bank had borrowed $44,530,000 as outstanding advances and the FHLB had issued letters of credit on the Bank's behalf, totaling $33,522,000 against its available credit lines.

The Bank has a $20,000,000 unsecured federal funds line of credit with Pacific Coast Bankers Bank, and a $3,000,000 unsecured federal funds line of credit and a $2,000,000 federal funds line of credit secured by investments with Atlantic Community Bankers Bank. There were no federal funds purchased outstanding at December 31, 2023 and 2022.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window. All borrowings through this facility are secured by specific pledge of investments. There were no borrowings outstanding under this facility at December 31, 2023 and 2022.

The Company has a $2,500,000 unsecured revolving line of credit with Atlantic Community Bankers Bank. There were no borrowings outstanding under this facility at December 31, 2023 and 2022.

8. SUBORDINATED DEBT

On September 15, 2020, the Bank issued $6 million in subordinated notes. These notes have a maturity date of December 15, 2030, and bear interest at a fixed rate of 6.00%. The Bank may, at its option, at any time on an interest payment date on or after December 15, 2025, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

The principal and unamortized debt issuance costs of subordinated debt at December 31, 2023 and 2022, are as follows:

	December 31, 2023		
	Principal	Unamortized Debt Issuance Costs	Net
6% subordinated notes, due December 15, 2030	$ 6,000,000	$ 21,866	$ 5,978,134
	$ 6,000,000	$ 21,866	$ 5,978,134

	December 31, 2022		
	Principal	Unamortized Debt Issuance Costs	Net
6% subordinated notes, due December 15, 2030	$ 6,000,000	$ 34,361	$ 5,965,639
	$ 6,000,000	$ 34,361	$ 5,965,639

All subordinated notes are not subject to repayment at the option of the noteholders. These notes are all unsecured and rank junior in right of payment to the Bank's obligations to its general creditors and qualify as Tier 2 capital for regulatory purposes.

9. LEASES

In 2013, the Company entered into an operating lease agreement for its corporate office. This lease commenced in May 2014 and has a ten year and seven-month term with two additional five-year option periods. This lease will expire on November 30, 2024 and will not be renewed.

In 2019, the Company entered into an amendment to the corporate office lease to expand the leased space. The amendment commenced in November 2019 and follows the same term as the original lease.

In 2023, the Company entered into an operating lease agreement for its new corporate office location.

The Company also has lease agreements for office equipment.

9. LEASES (CONTINUED)

The Company accounts for its leases in accordance with Topic 842, Leases. All of the leases in which the Company is the lessee are classified as operating leases. In accordance with Topic 842, operating lease agreements are required to be recognized on the Consolidated Balance Sheets as a right of use asset and a corresponding lease liability. The Company has elected not to include short term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheets.

The following table presents the balance sheet classification of our ROU assets and lease liabilities, included in other assets and other liabilities, respectively.

Year Ending December 31, 2023		Amount
Lease ROU assets	$	3,425,394
Lease liabilities		3,431,933

The calculation of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum lease payments, which is the Company's incremental borrowing rate for a loan term similar to the lease term. The weighted-average remaining lease term was 9.5 years and the weighted-average discount rate was 4.77% as of December 31, 2023.

Lease expense was $204,391 and $202,313 for the years ended December 31, 2023 and 2022, respectively.

Cash paid on operating lease liabilities amounted to $226,219 and $220,931 for the years ended December 31, 2023 and 2022, respectively.

Future minimum lease payments by year and in the aggregate for leases as of December 31, 2023 are as follows:

Year Ending December 31,		Amount
2024	$	481,105
2025		394,797
2026		399,105
2027		399,944
2028		406,169
Thereafter		2,240,033
Subtotal	$	4,321,153
Less: imputed interest		(889,220)
Total	$	3,431,933

10. EMPLOYMENT AGREEMENTS

The Company has employment agreements with its chief executive officer and president. The agreements include minimum annual salary commitments, change of control provisions and certain retirement benefits. The Company also has a change of control agreement with its chief risk officer. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Company, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreement.

11. SHAREHOLDERS' EQUITY

During 2023, the Company declared a 5 percent common stock dividend which resulted in the issuance of 146,898 common stock shares. For all periods presented, all share and per share amounts are adjusted for the stock dividend.

The Company has a Director Fee Plan. The Plan allows for non-employee directors to elect to receive a specified percentage of fees for services on the Board of Directors in the form of shares of the Company's common stock. The purchase price for these shares is the volume weighted average price of the Company's common stock as reported on the over-the-counter market on the OTCQX Marketplace, for the calendar quarter for which a Director's compensation is payable. During 2023 and 2022, the Company issued 4,729 and 4,236 shares of common stock under this Plan.

The Company has an Employee Stock Purchase Plan. The Employee Plan allows employees with at least six months of service and who customarily work more than five months per calendar year to purchase shares through a payroll deduction at a price set by the Capital Committee between 85 percent and 100 percent of the fair market value of such share on each quarterly purchase date. Payroll deductions for this Plan cannot exceed the lower of 5 percent of the employee's compensation or $2,500 per quarter. During 2023 and 2022, the Company issued 5,031 and 4,354 shares of common stock under this Plan.

12. FEDERAL INCOME TAXES

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

	2023	2022
Current expense	$ 1,487,944	$ 1,696,064
Deferred expense (benefit)	31,621	(265,513)
Total	$ 1,519,565	$ 1,430,551

A reconciliation of the statutory federal income tax at a rate of 21 percent for 2023 and 2022 to federal income tax expense included in the Consolidated Statements of Income for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Federal income tax a statutory rate	$ 1,563,568	$ 1,481,688
Tax exempt interest	(26,237)	(26,394)
Bank-owned life insurance income	(30,381)	(28,922)
Other	12,615	4,179
Total	$ 1,519,565	$ 1,430,551

The components of the net deferred tax asset at December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 806,002	$ 852,176
Unrealized loss on available-for-sale securities	276,053	294,662
Supplemental executive retirement plan	149,385	135,310
Other	104,093	73,990
Total gross deferred tax assets	1,335,533	1,356,138
Deferred tax liabilities:		
Deferred loan costs	(167,172)	(149,251)
Depreciation on premises and equipment	(185,224)	(192,414)
Prepaid expenses	(23,088)	(23,440)
Total gross deferred tax liabilities	(375,484)	(365,105)
Net deferred tax assets, included in other assets	$ 960,049	$ 991,033

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets at December 31, 2023.

12. FEDERAL INCOME TAXES (CONTINUED)

The Company follows the provisions of Financial Accounting Standards Board ASC 740, *Accounting for Uncertainty in Income Taxes*. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the more-likely-than-not test, no tax benefit is recorded. Under the more-likely-than-not threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2023 and 2022, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2020.

13. TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties). Loans receivable of related parties totaled $9,134,996 at December 31, 2023, and $6,572,897 at December 31, 2022. During 2023, $2,952,000 of advances were made and repayments totaled $389,901. Deposits of related parties totaled $8,420,189 and $11,209,755 at December 31, 2023 and 2022, respectively.

The Company paid legal fees of approximately $1,177 and $390 to a law firm of a director for the years ended December 31, 2023 and 2022, respectively.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Company's financial instrument commitments at December 31, 2023 and 2022, is as follows:

	2023	2022
Commitments to grant loans	$ 18,563,400	$ 12,053,592
Unfunded commitments under lines of credit	76,621,413	71,399,559
Standby letters of credit	10,912,518	5,378,845

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2023 and 2022 was $10,912,518 and $5,378,845, respectively. The current amount of the liability as of December 31, 2023 and 2022, for guarantees under standby letters of credit issued is not material.

15. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the 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 the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Total, Tier I, and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

In July 2013, the federal banking agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III, that (i) introduced a new capital ratio pursuant to the prompt corrective action provisions, the common equity tier 1 capital to risk weighted assets ratio, (ii) increased the adequately capitalized and well capitalized thresholds for the Tier I risk based capital ratios to 6 percent and 8 percent, respectively, (iii) changed the treatment of certain capital components for determining Tier I and Tier II capital, and (iv) changed the risk weighting of certain assets and off balance sheet items in determining risk weighted assets. The rules, which were effective January 1, 2015, also require that banks maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer was phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625 percent of risk weighted assets for 2016, 1.25 percent for 2017, 1.875 percent for 2018, and 2.5 percent for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

15. REGULATORY MATTERS (CONTINUED)

A comparison of the Company's and the Bank's actual capital amounts and ratios at December 31, 2023 and 2022, are presented below (dollars in thousands):

	2023							
	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted asset)								
First Resource Bancorp, Inc.	$ 57,479	12.38%	$ ≥ 37,141	≥ 8.0%	$ ≥ 48,748	≥ 10.5%	$ N/A	N/A
First Resource Bank	57,307	12.35%	≥ 37,137	≥ 8.0%	≥ 48,742	≥ 10.5%	≥ 46,421	≥ 10.0%
Tier 1 capital (to risk-weighted asset)								
First Resource Bancorp, Inc.	47,173	10.16%	≥ 27,856	≥ 6.0%	≥ 39,462	≥ 8.5%	N/A	N/A
First Resource Bank	47,001	10.12%	≥ 27,853	≥ 6.0%	≥ 39,458	≥ 8.5%	≥ 37,137	≥ 8.0%
Common Equity Tier 1 capital (to risk-wighted assets)								
First Resource Bancorp, Inc.	47,173	10.16%	≥ 20,892	≥ 4.5%	≥ 32,498	≥ 7.0%	N/A	N/A
First Resource Bank	47,001	10.12%	≥ 20,889	≥ 4.5%	≥ 32,495	≥ 7.0%	≥ 30,174	≥ 6.5%
Tier 1 capital (to average assets)								
First Resource Bancorp, Inc.	47,173	8.19%	≥ 23,033	≥ 4.0%	N/A	N/A	N/A	N/A
First Resource Bank	47,001	8.16%	≥ 23,032	≥ 4.0%	N/A	N/A	≥ 28,790	≥ 5.0%

	2022							
	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted asset)								
First Resource Bancorp, Inc.	$ 51,432	12.63%	$ ≥ 32,577	≥ 8.0%	$ ≥ 42,758	≥ 10.5%	$ N/A	N/A
First Resource Bank	51,286	12.60%	≥ 32,574	≥ 8.0%	≥ 42,753	≥ 10.5%	≥ 40,717	≥ 10.0%
Tier 1 capital (to risk-weighted asset)								
First Resource Bancorp, Inc.	41,204	10.12%	≥ 24,433	≥ 6.0%	≥ 34,613	≥ 8.5%	N/A	N/A
First Resource Bank	41,058	10.08%	≥ 24,430	≥ 6.0%	≥ 34,610	≥ 8.5%	≥ 32,574	≥ 8.0%
Common Equity Tier 1 capital (to risk-wighted assets)								
First Resource Bancorp, Inc.	41,204	10.12%	≥ 18,325	≥ 4.5%	≥ 28,505	≥ 7.0%	N/A	N/A
First Resource Bank	41,058	10.08%	≥ 18,323	≥ 4.5%	≥ 28,502	≥ 7.0%	≥ 26,466	≥ 6.5%
Tier 1 capital (to average assets)								
First Resource Bancorp, Inc.	41,204	8.19%	≥ 20,126	≥ 4.0%	N/A	N/A	N/A	N/A
First Resource Bank	41,058	8.16%	≥ 20,125	≥ 4.0%	N/A	N/A	≥ 25,156	≥ 5.0%

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

16. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to these respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Company, the fair value of a financial instrument is the price that would be received to sell an asset

16. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments.

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurement guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

Level I – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level II – Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level III – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and 2022 are as follows:

	December 31, 2023			
	Level I	Level II	Level III	Total
Fair value measured on a recurring basis:				
U.S. government securities	$ -	$ 7,986,080	$ -	$ 7,986,080
Mortgage-backed securities in government-sponsored entities	-	9,085,886	-	9,085,886
Total	$ -	$ 17,071,966	$ -	$ 17,071,966

	December 31, 2022			
	Level I	Level II	Level III	Total
Fair value measured on a recurring basis:				
U.S. government securities	$ -	$ 14,982,150	$ -	$ 14,982,150
Mortgage-backed securities in government-sponsored entities	-	10,787,417	-	10,787,417
Total	$ -	$ 25,769,567	$ -	$ 25,769,567

16. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and 2022, is as follows:

	December 31, 2023			
	Level I	Level II	Level III	Total
Fair value measured on a nonrecurring basis:				
Servicing rights	$ -	$ 18,136	$ -	$ 18,136
Individually evaluated loans, net of ACL	-	-	2,772,328	2,772,328
Total	$ -	$ 18,136	$ 2,772,328	$ 2,790,464

	December 31, 2022			
	Level I	Level II	Level III	Total
Fair value measured on a nonrecurring basis:				
Servicing rights	$ -	$ 31,336	$ -	$ 31,336
Impaired loans	-	-	1,702,024	1,702,024
Total	$ -	$ 31,336	$ 1,702,024	$ 1,733,360

Quantitative information about Level III Fair Value Measurements at December 31, 2023 and 2022 is included in the table below:

	December 31, 2023			
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 2,772,328	Appraisal of collateral	Liquidation expenses	7.8%–7.8% (7.8%)

	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,702,024	Appraisal of collateral	Liquidation expenses	15.0%–40.0% (16.4%)

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The fair value estimates, and methods and assumptions used to estimate the fair value estimates, for certain of the Company's financial instruments are set forth below:

16. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities

The fair value of securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Individually Evaluated Loans (Generally Carried at Fair Value)

This category consists of loans that were individually evaluated for credit loss, net of related ACL, and have been classified as Level 3 assets. In 2022, the amount shown is the balance of individually evaluated loans reporting a specific allocation or that have been partially charged-off. All of these loans are considered collateral-dependent; therefore, all of the Company's individually assessed loans, whether reporting a specific allowance allocation or not, are considered collateral-dependent. The Company utilized Level 3 inputs such as independent appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not observable. Appraisals may be adjusted downward by management for qualitative factors such as economic conditions and estimated liquidation expenses.

Servicing Rights (Carried at Lower of Cost or Fair Value)

The fair values of the servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income.

The following tables summarize the carrying amount and fair value estimates of the Company's financial instruments at December 31, 2023 and 2022, (in thousands):

16. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2023				
	Carrying Value	Level I	Level II	Level III	Fair Value
Financial assets:					
Cash and short-term time deposits	$ 23,921	$ 23,921	$ -	$ -	$ 23,921
Securities available for sale	17,072	-	17,072	-	17,072
Securities held to maturity	8,769	-	7,783	-	7,783
Loans receivable, net	527,073	-	-	500,217	500,217
Restricted investment in bank stock	2,363	-	2,363	-	2,363
Servicing rights	18	-	18	-	18
Accrued interest receivable	1,770	-	1,770	-	1,770
Financial liabilities:					
Demand and savings deposits	$ 366,552	$ -	$ 366,552	$ -	$ 366,552
Time deposits	132,739	-	132,325	-	132,325
Accrued interest payable	812	-	812	-	812
Short-term borrowings	35,000	-	35,000	-	35,000
Long-term borrowings	9,530	-	9,093	-	9,093
Subordinated debt	5,978	-	5,719	-	5,719
Off-balance sheet assets:					
Commitments to extend credit	$ -	$ -	$ -	$ -	$ -
Unfunded commitments under lines of credit	-	-	-	-	-

	2022				
	Carrying Value	Level I	Level II	Level III	Fair Value
Financial assets:					
Cash and short-term time deposits	$ 5,701	$ 5,701	$ -	$ -	$ 5,701
Securities available for sale	25,770	-	25,770	-	25,770
Securities held to maturity	9,012	-	8,012	-	8,012
Loans receivable, net	454,447	-	-	430,094	430,094
Restricted investment in bank stock	1,969	-	1,969	-	1,969
Servicing rights	31	-	31	-	31
Accrued interest receivable	1,229	-	1,229	-	1,229
Financial liabilities:					
Demand and savings deposits	$ 341,600	$ -	$ 341,600	$ -	$ 341,600
Time deposits	89,365	-	87,759	-	87,759
Accrued interest payable	239	-	239	-	239
Short-term borrowings	27,196	-	27,196	-	27,196
Long-term borrowings	9,530	-	8,800	-	8,800
Subordinated debt	5,966	-	5,564	-	5,564
Off-balance sheet assets:					
Commitments to extend credit	$ -	$ -	$ -	$ -	$ -
Unfunded commitments under lines of credit	-	-	-	-	-

17. REVENUE RECOGNITION

The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled.

Management determined that revenue derived from financial instruments, including revenue from loans receivable and securities, along with non-interest income resulting from gains (losses) from the sale of securities or SBA loans, commitment and other loan related fees as well as income from bank owned life insurance are not within the scope of Topic 606.

Topic 606 is applicable to non-interest income streams such as service charges on deposits and other non-interest income. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of monthly service charges, check orders, other deposit account related fees, wire transfers, returned deposit fees, and safe deposit box rentals. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Company's performance obligation for wire transfers, returned deposit fees, and safe deposit box rental are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Referral Fee Income

Referral fee income consists of fees paid by a third-party correspondent bank to the Company for referring borrowers to the correspondent bank to execute interest rate swaps. These transactions are transactional in nature, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time.

Other

Other fees are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks such as MasterCard, Visa and STAR. The interchange fees are presented net of any associated costs. ATM fees are primarily generated when a non-Company customer uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions. Other noninterest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

17. REVENUE RECOGNITION (CONTINUED)

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2023 and 2022.

	2023	2022
Noninterest income		
In-scope of Topic 606		
Service charges on deposits	$ 411,961	$ 381,125
Referral fee income	75,649	186,699
Other	232,981	207,611
Noninterest income (in-scope of Topic 606)	720,591	775,435
Noninterest income (out of scope of Topic 606)	197,939	284,345
Total	$ 918,530	$ 1,059,780

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and December 31, 2022, the Company did not have any contract balances.

18. SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 21, 2024, the date these financial statements were available to be issued.

Stock Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.

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2023 ACHIEVEMENTS

Best Places to Work Company from Philadelphia Business Journal

5 Years in a Row

Best Bank in Chester County from the Daily Local News

7 Years in a Row

Best Community Bank Along the Main Line and Best Bank Branch Manager from the Main Line Times

Joe DiTommaso
3 Years in a Row

EXTON
800 N. Pottstown Pike
Exton, PA 19341
610.363.9400

WEST CHESTER
844 Paoli Pike
West Chester, PA 19380
610.235.4700

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Wayne, PA 19087
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