First Resource Bancorp, Inc.

2022 ANNUAL REPORT

2022 LEADERSHIP

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President, Zeke's Inc.

ANN DUKE, ESQUIRE
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Chairman, First Resource Bank

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Chief Executive Officer, First Resource Bank

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RICHARD D. ORLOW
Counsel, Piazza Management Company

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ROBERT E. RIGG
Managing Partner,
J&R Real Estate and Silver Oak Properties

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LAUREN C. RANALLI
President & Chief Financial Officer

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Executive Vice President & Chief Risk Officer

LISA A. DONNON
Executive Vice President & Chief Lending Officer

BRIAN S. JACKSON
Executive Vice President &
Chief Information Security Officer

KENNETH R. KRAMER
Executive Vice President & Chief Credit Officer

BRIDGET M. MORAN
Executive Vice President & Chief Operating Officer

2022 ACHIEVEMENTS

LETTER FROM OUR LEADERSHIP

Dear Shareholders,

Our Board of Directors and Senior Management are delighted to share with you our 2022 Annual Report which reflects another year of outstanding performance for First Resource Bank. Our exceptional results, fueled by the Bank's commitment to being the first resource when it comes to serving the financial needs of our community, allowed us to achieve substantial growth with total assets exceeding $500 million.

We have always been careful to grow our banking franchise in a responsible and sustainable manner. Our successful execution of the Bank's strategic plan has made this growth possible and is responsible for our twelfth consecutive year of record annual earnings, with net income for the year ended December 31, 2022 totaling $5,625,101.

This tremendous milestone in profitability is the result of a dedicated sales team who prevailed despite the challenges faced with the expiration of the Small Business Administration's Paycheck Protection Loan Program ("PPP") and rising interest rates. The Bank substantially increased its loan portfolio notwithstanding the satisfaction of all outstanding PPP, while also achieving elevated levels of profitability, as measured by our record annual return on equity of 14.91% in 2022.

In addition to our exceptional growth in assets and profitability, the Bank took a significant step forward with the successful formation and implementation of First Resource Bancorp, Inc., the holding company for First Resource Bank. This important upgrade to our corporate structure will afford the Bank many advantages as it pertains to securing capital and supporting continued growth.

Other notable highlights for 2022 include:

- Net income grew 35%
- Total loans grew 18%
- Total deposits grew 8%
- Total interest income grew 14%
- Net interest margin expanded 15 basis points, growing from 3.61% to 3.76%
- Book value per share grew 12%
- Earnings per share improved 34% to $1.92
- Efficiency ratio improved to 58%, as compared to 65% in the prior year
- Return on assets improved to 1.17%
- Return on equity improved to 14.91%
- Named the Best Bank in Chester County for the sixth 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 second straight year
- Earning our fourth "Best Place to Work" designation by the Philadelphia Business Journal

LETTER FROM OUR LEADERSHIP

In 2022 we made significant technological enhancements to our digital banking platform, amplifying the functionality, look and feel for our customers while positioning the Bank for sustainable growth. With the majority of our daily deposit volume being received electronically, our "high tech, high touch" business model has contributed considerably to our success at a time when many institutions are closing branches and dealing with the fallout of unhappy customers. Our ongoing investments in technology will allow us to maintain a minimal physical presence as we continue to grow our banking franchise, keeping overhead costs low, boosting productivity and increasing profitability.

Strengthening our foothold in the marketplace remains a top priority for the Bank as we head into 2023. We have expanded our business development team to help 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.

With ongoing disruption in the market from local merger and acquisition activity, we continue to see an increasing appetite for strong community banks, like First Resource Bank, whose trustworthy reputations have set them apart from the mega banks. 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. We're 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.

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 or would like to learn more about our banking services, please contact our CEO, Glenn Marshall at 610-996-6661 or our President & CFO, Lauren Ranalli at 610-561-6014.

Sincerely,

James B. Griffin   Glenn B Marshall   Lauren C. Ranalli

JAMES B. GRIFFIN
CHAIRMAN OF THE BOARD

GLENN B. MARSHALL
CEO

LAUREN C. RANALLI
PRESIDENT & CFO

First Resource Bancorp, Inc.

Financial Statements

December 31, 2022 and 2021

FIRST RESOURCE BANCORP, INC.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 its subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2022; the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year 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.

Other Matter

The financial statements of the Company as of and for the year ended December 31, 2021, were audited by other auditors, whose report, dated February 17, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

PITTSBURGH, PA
2009 Mackenzie Way • Suite 340
Cranberry Township, PA 16066
(724) 934-0344

PHILADELPHIA, PA
2100 Renaissance Blvd. • Suite 110
King of Prussia, PA 19406
(610) 278-9800

WHEELING, WV
980 National Road
Wheeling, WV 26003
(304) 233-5030

STEUBENVILLE, OH
511 N. Fourth Street
Steubenville, OH 43952
(304) 233-5030

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

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 15, 2023

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

		December 31, 2022		2021
ASSETS				
Cash and due from banks	$	5,600,869	$	10,545,913
Time deposits at other banks		100,000		100,000
Securities available for sale, at fair value		25,769,567		43,858,111
Securities held to maturity (fair value of $8,012,198 and $9,520,088 at December 31, 2022 and 2021, respectively)		9,011,975		9,561,563
Loans receivable, net of allowance for loan losses of $4,238,927 and $3,322,979 at December 31, 2022 and 2021, respectively		454,446,850		384,907,156
Restricted investment in bank stock		1,968,600		1,245,500
Premises and equipment, net		7,967,246		8,075,525
Accrued interest receivable		1,228,684		886,327
Bank owned life insurance		8,167,726		7,977,773
Other assets		2,463,467		1,906,670
TOTAL ASSETS	$	516,724,984	$	469,064,538
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing	$	87,888,933	$	113,175,651
Interest-bearing		343,075,544		286,811,091
Total deposits		430,964,477		399,986,742
Short-term borrowings		27,196,000		9,000,000
Long-term borrowings		9,530,000		15,280,000
Subordinated debt		5,965,639		5,953,144
Accrued interest payable		238,834		144,632
Other liabilities		2,733,654		3,148,818
TOTAL LIABILITIES		476,628,604		433,513,336
SHAREHOLDERS' EQUITY				
Preferred stock, 489,769 shares authorized, none issued and outstanding		-		-
Common stock, $1.00 par value; 20,000,000 shares authorized; 2,936,756 and 2,928,166 shares issued and outstanding at December 31, 2022 and 2021, respectively		2,936,756		2,928,166
Additional paid-in capital		18,156,784		18,067,622
Accumulated other comprehensive (loss) income		(1,108,493)		69,182
Retained earnings		20,111,333		14,486,232
TOTAL SHAREHOLDERS' EQUITY		40,096,380		35,551,202
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	516,724,984	$	469,064,538

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2022	2021
INTEREST INCOME		
Loans receivable, including fees	$ 20,073,378	$ 17,803,943
Securities	483,581	379,409
Other	177,720	47,083
Total interest income	20,734,679	18,230,435
INTEREST EXPENSE		
Deposits	2,767,035	1,819,109
Borrowings	611,432	787,622
Total interest expense	3,378,467	2,606,731
NET INTEREST INCOME	17,356,212	15,623,704
Provision for loan losses	653,214	576,994
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,702,998	15,046,710
NONINTEREST INCOME		
Service charges and other fees	381,125	346,670
Net gain on sale of SBA loans	94,392	-
Referral fee income	186,699	-
Bank owned life insurance income	189,953	186,973
Other	207,611	184,667
Total noninterest income	1,059,780	718,310
NONINTEREST EXPENSE		
Salaries and employee benefits	6,510,625	6,168,585
Occupancy and equipment	977,217	1,018,934
Professional fees	483,402	431,287
Advertising and promotion	335,278	323,419
Data processing	573,209	649,483
FDIC premium expense	271,966	307,599
FHLB advance prepayment penalties	-	277,137
Software expense	288,017	216,269
Other	1,267,412	1,160,477
Total noninterest expense	10,707,126	10,553,190
Income before federal income tax expense	7,055,652	5,211,830
Federal income tax expense	1,430,551	1,040,067
NET INCOME	$ 5,625,101	$ 4,171,763

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2022	2021
Net income	$ 5,625,101	$ 4,171,763
Other comprehensive loss:		
Unrealized losses on available-for-sale securities	(1,490,727)	(207,435)
Tax benefit	313,052	43,562
Total other comprehensive loss	(1,177,675)	(163,873)
Total Comprehensive Income	$ 4,447,426	$ 4,007,890

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, 2020	$ 2,779,607	$ 16,830,983	$ 11,612,165	$ 233,055	$ 31,455,810
Net income	-	-	4,171,763	-	4,171,763
Other comprehensive loss	-	-	-	(163,873)	(163,873)
5% common stock dividend (139,061 shares)	139,061	1,157,517	(1,296,578)	-	-
Cash in lieu of fractional shares on 5% stock dividend	-	-	(1,118)	-	(1,118)
Issuance of common stock (9,498 shares)	9,498	79,122	-	-	88,620
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

See accompanying notes to the consolidated financial statements.

FIRST RESOURCE BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2022	2021
OPERATING ACTIVITIES		
Net income	$ 5,625,101	$ 4,171,763
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	653,214	576,994
Depreciation and amortization	420,129	443,283
Net amoritization on securities	40,520	68,512
Net amoritization of subordinated debt issuance costs	12,495	12,495
Amortization of servicing rights	56,962	33,391
Accretion of discount of SBA loans	(24,502)	(21,306)
Net accretion of deferred loan origination fees	(605,220)	(2,104,787)
Deferred tax benefit	(265,513)	(33,341)
Bank owned life insurance income	(189,953)	(186,973)
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) decrease in accrued interest receivalbe	(342,357)	286,663
(Increase) decrease in other assets	(35,194)	262,716
Increase (decrease) in accrued interest payable	94,202	(105,816)
(Decrease) increase in other liabilities	(415,164)	592,534
Net cash provided by operating activities	5,024,720	3,996,128
INVESTING ACTIVITIES		
Net increase in loans	(69,563,186)	(47,325,038)
Purchases of securities available-for-sale	(15,987,030)	(38,038,540)
Purchases of securities held-to-maturity	(1,588,455)	(2,019,688)
Maturities and principal repayments of securities available-for-sale	32,564,231	28,196,323
Maturities and principal repayments of securities held-for-maturity	2,118,139	1,226,319
Decrease in time deposits at other banks	-	499,000
Purchase of restricted bank stock, net	(723,100)	(32,000)
Purchase of bank owned life insurance	-	(1,950,000)
Purchase of premises and equipment	(311,850)	(138,539)
Net cash used for investing activities	(53,491,251)	(59,582,163)
FINANCING ACTIVITIES		
Net increase in deposits	30,977,735	41,961,626
Increase in short-term borrowings	18,196,000	9,000,000
Repayment of long-term borrowings	(5,750,000)	(8,926,000)
Repayment of subordinated debt	-	(2,000,000)
Cash in lieu of fractional shares on 5% stock divided	-	(1,118)
Issuance of common stock	97,752	88,620
Net cash provided by financing activities	43,521,487	40,123,128
Decrease in cash and cash equivalents	(4,945,044)	(15,462,907)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,545,913	26,008,820
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,600,869	$ 10,545,913
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$ 3,284,265	$ 2,712,547
Federal income taxes paid	1,525,000	1,368,966
NONCASH ACTIVITIES		
5% common stock dividend	$ -	$ 1,157,517

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 2022 and the Bank for 2021. All significant intercompany accounts and transactions have been eliminated for 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 loan 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, 2022 and 2021, 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)

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.

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, 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.

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.

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.

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. 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. Consumer loans consist of the following classes: home equity loans and other consumer loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

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 loan 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.

Allowance for Loan Losses

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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.

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 the following loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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. Included in commercial loans are Paycheck Protection Program (PPP) loans that are outlined below in "Certain Regulatory Developments Relating to the COVID-19 Pandemic."

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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.

The majority of the commercial and consumer loans are located in Chester County, 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)

Allowance for Loan Losses (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.

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 $34,895 and $61,993 for the years ended December 31, 2022 and 2021, respectively, are reported net of amortization of the servicing rights.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2022 and 2021 is comprised of stock in the Federal Home Loan Bank of Pittsburgh (FHLB) in the amount of $1,918,600 and $1,195,500, 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, 2022 and December 31, 2021.

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 2022 and 2021, 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, 2022 and 2021 was $158,718 and $154,273, 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, 2022 and 2021, other liabilities include $644,335 and $556,840 accrued under these plans, respectively. For the years ended December 31, 2022 and 2021, salaries and employee benefits expense includes $87,495 and $125,682 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.

Certain Regulatory Developments Relating to the COVID-19 Pandemic

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was passed by Congress and signed into law by the President. The CARES Act provided approximately $2.2 trillion in direct economic relief in response to the public health and economic impacts of COVID-19. Many of the CARES Act's programs are, and remain, dependent upon the direct involvement of U.S. financial institutions like the Bank. These programs have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve, and other federal bank regulatory authorities, including those with direct supervisory jurisdiction over the Bank. Furthermore, as the COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. Set forth below is a brief overview of select provisions of the CARES Act and other regulations and supervisory guidance related to the COVID-19 pandemic that are applicable to the operations and activities of the Company.

Paycheck Protection Program The CARES Act included an allocation of $349 billion for loans to be issued by financial institutions through the SBA. This program is known as the Paycheck Protection Program (PPP). PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain Regulatory Developments Relating to the COVID-19 Pandemic (Continued)

fixed rate of 1.00 percent and a term of two or five years dependent on when they were booked, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100 percent guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1 percent to 5 percent, based on the size of the loan. The SBA began accepting submissions for these PPP loans on Friday, April 3, 2020. The Paycheck Protection Program and Health Care Enhancement Act (PPP/HCEA Act) was passed by Congress on April 23, 2020, and signed into law on April 24, 2020. The PPP/HCEA Act authorizes additional funding under the CARES Act of $310 billion for PPP loans to be issued by financial institutions through the SBA. On June 5, 2020, the President signed the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act). This Act provides a minimum maturity of 5 years for all PPP loans made on or after June 5, 2020. It also permits lenders and borrowers to extend the maturity date, by mutual agreement for PPP loans made prior to June 5, 2020. In addition, the Flexibility Act provided the ability to extend the covered period from 8 weeks after the date of disbursement of the PPP loan to 24 weeks. If the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, or if SBA determined the loan is not eligible for forgiveness, the PPP loan is no longer deferred and the borrower must begin paying principal and interest. On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act was signed into law by the President, which allowed an additional $284 million for second draw PPP loans to eligible small businesses.

During the year ended December 31, 2022, the Company did not originate any PPP loans. At December 31, 2022, there were no deferred fees related to PPP loans that remain to be accreted.

During the year ended December 31, 2021, the Company originated $24,709,273 of PPP loans, with associated deferred fees amounting to $1,261,645 at origination which are being accreted over the life of the loans, primarily five years. At December 31, 2021, $168,595 of deferred fees related to PPP loans remain to be accreted.

Troubled Debt Restructuring and Loan Modifications for Affected Borrowers The CARES Act permits banks to suspend requirements under GAAP that certain loan modifications be characterized as a troubled debt restructuring (TDR). TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020, and the earlier of December 31, 2020, or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. Under the Coronavirus Response and Relief Supplemental Appropriations Act, the suspension of requirements of GAAP for certain loan modifications that would otherwise be categorized as a TDR was extended until the earlier of 60 days after the termination of the COVID-19 national emergency, or January 1, 2022. Federal bank regulatory authorities also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. Additionally, FASB accounting standard codification subtopic 310-40 allows for delays in payments that are insignificant in consideration to the total contractual amount due and the timing of the delay.

The Company implemented a modification program to defer principal or principal and interest payments for borrowers that were directly impacted by the pandemic who were not more than 30 days past due as of December 31, 2019, all of which were modified in accordance with Cares Act. In accordance with the Cares Act, the Company has elected to not apply troubled debt restructuring classification to these modifications. Accordingly, these modifications would not be classified as TDRs. At December 31, 2022 and 2021, the Company had one commercial loan modification with a

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain Regulatory Developments Relating to the COVID-19 Pandemic (Continued)

reduced interest rate and payment with an outstanding balance amounting to $3,662,877 and $3,767,439, respectively, which was not deemed to be a TDR.

The full impact of COVID-19 pandemic continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, results of operations, liquidity and capital levels. Management is actively monitoring the rapid developments of and uncertainties caused by the COVID-19 pandemic, including changes in interest rates, competition for deposits and quality loans, and credit performance and credit risk in the Company's loan portfolio, all of which could have an adverse impact on the Company's business, financial condition, operating results, liquidity and capital ratios in future periods.

Accounting Standards Pending Adoption

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This standard, along with several other subsequent codification updates, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses that are expected to occur over the remaining life of a financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures.

Management has completed its implementation plan, segmentation, and testing. The implementation plan included drafting of additional controls and policies to govern data uploads to its third-party vendor, balancing and reconciling, testing and auditing of inputs, and review and decision-making surrounding segmentation, methodologies, qualitative factor adjustments, and reasonable and supportable forecasts and reversion techniques. Parallel runs were processed during 2022 and the results were consistent with management's expectations. The adoption of ASU 2016-13 on January 1, 2023 is not expected to have a significant impact on our regulatory capital ratios.

2. SECURITIES

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2022 and 2021, are summarized as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
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

	2021			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities	$ 30,000,028	$ -	$ (28)	$ 30,000,000
Mortgage-backed securities in government-sponsored entities	13,770,511	157,815	(70,215)	13,858,111
Total	$ 43,770,539	$ 157,815	$ (70,243)	$ 43,858,111
Held to Maturity				
Mortgage-backed securities in government-sponsored entities	$ 2,892,178	$ 2,958	$ (70,918)	$ 2,824,218
Corporate bonds	1,000,000	-	(11,940)	988,060
Municipal bonds	5,669,385	46,560	(8,135)	5,707,810
Total	$ 9,561,563	$ 49,518	$ (90,993)	$ 9,520,088

2. SECURITIES (CONTINUED)

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 and 2021.

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)

2021	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	$ 20,000,000	$ (28)	$ -	$ -	$ 20,000,000	$ (28)
Mortgage-backed securities in government-sponsored entities	8,321,718	(70,215)	-	-	8,321,718	(70,215)
Total	$ 28,321,718	$ (70,243)	$ -	$ -	$ 28,321,718	$ (70,243)
Held to Maturity						
Mortgage-backed securities in government-sponsored entities	$ 1,906,292	$ (39,859)	$ 876,051	$ (31,059)	$ 2,782,343	$ (70,918)
Corporate bonds	988,060	(11,940)	-	-	988,060	(11,940)
Municipal bonds	826,865	(8,135)	-	-	826,865	(8,135)
Total	$ 3,721,217	$ (59,934)	$ 876,051	$ (31,059)	$ 4,597,268	$ (90,993)

As of December 31, 2022, 43 securities were in unrealized loss positions for less than twelve months due to interest rate fluctuations and 15 securities were in unrealized loss positions for longer than twelve months due to interest rate fluctuations. No securities were deemed to be other-than-temporarily impaired.

2. SECURITIES (CONTINUED)

The amortized cost and fair value of securities as of December 31, 2022, 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	$ 14,995,542	$ 14,982,150	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	6,241,138	5,771,271
Due over ten years	-	-	160,000	119,419
	14,995,542	14,982,150	6,401,138	5,890,690
U.S. government mortgage-backed securities - residential	12,177,180	10,787,417	2,610,837	2,121,508
	$ 27,172,722	$ 25,769,567	$ 9,011,975	$ 8,012,198

Securities with a carrying value of $9,498,288 and $2,448,789 at December 31, 2022 and 2021, respectively, were pledged to the Federal Reserve Bank of Philadelphia for discount window borrowings.

During the years ended December 31, 2022 and 2021, there were no securities sold by the Company.

3. LOANS RECEIVABLE

The composition of loans receivable at December 31, 2022 and 2021, is as follows:

	2022	2021
Commercial	$ 42,917,871	$ 39,366,902
Commercial real estate	365,653,885	313,673,823
Commercial construction	35,399,712	22,402,361
Home equity	15,289,288	13,337,895
Consumer, other	745,483	697,720
Total Loans	460,006,239	389,478,701
Unearned net loan origination fees and costs	(1,320,462)	(1,248,566)
Allowance for loan losses	(4,238,927)	(3,322,979)
Net Loans	$ 454,446,850	$ 384,907,156

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.

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. The Company did not have any loan sale activity during the year ended December 31, 2021. There were no SBA loans originated for sale held at December 31, 2022 and 2021.

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 $2,824,229 and $4,996,760 at December 31, 2022 and 2021, respectively.

The following summarizes the activity pertaining to the servicing rights using the amortization method for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning balance	$ 72,546	$ 98,740
Additions	21,556	-
Application of valuation allowance	(5,804)	7,197
Amortization	(56,962)	(33,391)
Ending Balance	$ 31,336	$ 72,546

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 balance sheets.

The following summarizes the activity pertaining to the valuation allowance for impairment of servicing rights for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning balance	$ -	$ 7,197
Additions charged to operations	5,804	-
Recoveries credited to operations	-	(7,197)
Ending Balance	$ 5,804	$ -

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

4. ALLOWANCE FOR LOAN LOSSES

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2022 and 2021, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2022 and 2021:

4. ALLOWANCE FOR LOAN LOSSES (CONTINUED)

	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

	2021						
	Commercial	Commercial Real Estate	Commercial Construction	Home Equity Loans	Consumer, Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance:	$ 414,647	$ 1,988,419	$ 279,028	$ 120,421	$ 4,508	$ 100,000	$ 2,907,023
Charge-offs	(182,798)	-	-	-	-	-	(182,798)
Recoveries	4,194	15,900	-	1,300	366	-	21,760
Provisions	36,392	676,505	(75,592)	(58,685)	(1,626)	-	576,994
Ending balance	$ 272,435	$ 2,680,824	$ 203,436	$ 63,036	$ 3,248	$ 100,000	$ 3,322,979
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 272,435	$ 2,680,824	$ 203,436	$ 63,036	$ 3,248	$ 100,000	$ 3,222,979
Loans receivable:							
Individually evaluated for impairment	$ 1,603,560	$ 786,641	$ -	$ 152,508	$ 117,746	$ -	$ 2,660,455
Collectively evaluated for impairment	37,763,342	312,887,182	22,402,361	13,185,387	579,974	-	386,818,246
Ending balance	$ 39,366,902	$ 313,673,823	$ 22,402,361	$ 13,337,895	$ 697,720	$ -	$ 389,478,701

4. ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present 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 and 2021:

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

2021	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, other	Total
Pass	$ 37,763,342	$ 312,887,182	$ 22,402,361	$ 13,209,576	$ 697,720	$ 386,960,181
Special Mention	1,603,560	786,641	-	-	-	2,390,201
Substandard	-	-	-	128,319	-	128,319
Total	$ 39,366,902	$ 313,673,823	$ 22,402,361	$ 13,337,895	$ 697,720	$ 389,478,701

The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the years ended December 31, 2022 and 2021:

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 LOAN LOSSES (CONTINUED)

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 1,603,560	$ 1,603,560	$ -	$ 551,527	$ 15,322
Commercial real estate	786,641	905,589	-	3,300,741	69,676
Commercial construction	-	-	-	-	-
Home Equity	152,508	152,508	-	551,132	17,890
Consumer, other	117,746	117,746	-	119,881	2,396
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Commercial construction	-	-	-	-	-
Home Equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total:					
Commercial	$ 1,603,560	$ 1,603,560	$ -	$ 551,527	$ 15,322
Commercial real estate	786,641	905,589	-	3,300,741	69,676
Commercial construction	-	-	-	-	-
Home Equity	152,508	152,508	-	551,132	17,890
Consumer, other	117,746	117,746	-	119,881	2,396

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, 2022 and 2021:

	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 LOAN LOSSES (CONTINUED)

	2021						
	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	$ -	$ -	$ -	$ -	$ 39,366,902	$ 39,366,902	$ -
Commercial real estate	-	-	-	-	313,673,823	313,673,823	-
Commercial construction	-	-	-	-	22,402,361	22,402,361	-
Home equity	-	-	-	-	13,337,895	13,337,895	-
Consumer, other	-	-	-	-	697,720	697,720	-
Total	$ -	$ -	$ -	$ -	$ 389,478,701	$ 389,478,701	$ -

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2022 and 2021:

	2022	2021
Commercial	$ -	$ -
Commercial real estate	897,527	-
Commercial construction	-	-
Home equity	-	-
Consumer, other	-	-
	$ 897,527	$ -

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a TDR. 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. 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 troubled debt restructurings during the years ended December 31, 2022 and 2021.

There were no troubled debt restructurings with a payment default within twelve months of the restructure date, during the years ended December 31, 2022 and 2021.

At December 31, 2022 and 2021, the Company had $-0- and $-0-, respectively, of residential real estate held in other real estate owned. At December 31, 2022 and 2021, the Company had initiated foreclosure proceedings on approximately $117,437 and $-0-, respectively, of loans secured by residential real estate.

5. PREMISES AND EQUIPMENT

The components of premises and equipment at December 31, 2022 and 2021, are as follows:

	2022	2021
Land	$ 2,609,586	$ 2,609,586
Land improvements	814,031	814,031
Buildings	5,106,117	5,071,118
Leasehold improvements	37,832	34,829
Furniture, fixtures, and equipment	1,648,635	1,620,961
Computer equipment and data processing software	1,142,155	897,459
	11,358,356	11,047,984
Less accumulated depreciation	(3,391,110)	(2,972,459)
Total	$ 7,967,246	$ 8,075,525

Depreciation and amortization expense was $420,129 and $443,283 for the years ended December 31, 2022 and 2021, respectively.

6. DEPOSITS

The components of deposits at December 31, 2022 and 2021, are as follows:

	2022	2021
Demand, noninterest-bearing	$ 87,888,933	$ 113,175,651
Demand, interest-bearing	46,526,732	31,251,216
Money market accounts	207,184,086	184,581,051
Time, $250,000 and over	27,646,839	9,956,980
Time, other	61,717,887	61,021,844
Total	$ 430,964,477	$ 399,986,742

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 72,707,560
2024	15,559,625
2025	737,142
2026	233,915
2027	126,484
Total	$ 89,364,726

At December 31, 2022 and 2021, the Company had brokered deposits of $5,161,000 and $5,161,000, respectively.

Deposit overdrafts totaling $42,004 and $9,267 at December 31, 2022 and 2021, respectively, are included within Loans receivable on the Consolidated Balance Sheets.

7. BORROWINGS

Short-term borrowings at December 31, 2022, consist of an advance from the Federal Home Loan Bank (FHLB) of $27,196,000, due January 3, 2023, with interest at 4.50%. Short-term borrowings at December 31, 2021, consist of an advance from the FHLB of $9,000,000, due January 3, 2022, with interest at 0.31%. The Company utilizes overnight borrowings from the FHLB for cash flow needs.

Long-term borrowings at December 31, 2022 and 2021, consisted of FHLB borrowings with the following maturity dates and interest rates:

Description	Maturity Date	Interest Rate	2022	2021
Fixed rate	02/28/22	2.548%	-	1,000,000
Fixed rate	03/16/22	0.833%	-	1,850,000
Fixed rate	05/16/22	2.916%	-	900,000
Fixed rate	06/02/22	1.562%	-	2,000,000
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	$ 15,280,000

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 $246,894,500 at December 31, 2022. At December 31, 2022, the Bank had borrowed $36,726,000 as outstanding advances and the FHLB had issued letters of credit on the Bank's behalf, totaling $18,131,000 against its available credit lines.

During the year ended December 31, 2021, the Company prepaid six FHLB advances totaling $5,878,000 and incurred prepayment penalty fees of $277,137 recorded in other expenses on the Consolidated Statements of Income.

The Bank has 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, 2022 and 2021.

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, 2022 and 2021.

8. SUBORDINATED DEBT

On October 15, 2015, the Bank issued $2 million in subordinated notes. These notes have a maturity date of October 1, 2025, and bear interest at a fixed rate of 6.50%. These notes were redeemed in whole on January 4, 2021.

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, 2022 and 2021, are as follows:

	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

	December 31, 2021		
	Principal	Unamortized Debt Issuance Costs	Net
6% subordinated notes, due December 15, 2030	$ 6,000,000	$ 46,856	$ 5,953,144
	$ 6,000,000	$ 46,856	$ 5,953,144

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.

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.

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 Sheet 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 Sheet.

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,	Amount
Lease ROU assets	$ 369,443
Lease liabilities	399,218

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 1.9 years and the weighted-average discount rate was 2.65% as of December 31, 2022.

Lease expense was $202,313 and $202,669 for the years ended December 31, 2022 and 2021, respectively.

Cash paid on operating lease liabilities amounted to $220,931 and $215,957 for the years ended December 31, 2022 and 2021, respectively.

Future minimum lease payments by year and in the aggregate for leases as of December 31, 2022 are as follows:

Year Ending December 31,	Amount
2023	$ 222,909
2024	186,558
2025	-
2026	-
2027	-
Thereafter	-
Subtotal	$ 409,467
Less: imputed interest	(10,249)
Total	$ 399,218

10. EMPLOYMENT AGREEMENTS

The Company has employment agreements with its chief executive officer and chief financial officer. 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 2021, the Bank declared a 5 percent common stock dividend which resulted in the issuance of 139,061 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 2022 and 2021, the Company issued 4,236 and 4,803 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 2022 and 2021, the Company issued 4,354 and 4,695 shares of common stock under this Plan.

12. FEDERAL INCOME TAXES

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

	2022	2021
Current expense	$ 1,696,064	$ 1,073,409
Deferred benefit	(265,513)	(33,342)
Total	$ 1,430,551	$ 1,040,067

A reconciliation of the statutory federal income tax at a rate of 21 percent for 2022 and 2021 to federal income tax expense included in the Consolidated Statements of Income for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
Federal income tax a statutory rate	$ 1,481,688	$ 1,094,484
Tax exempt interest	(26,394)	(28,725)
Bank-owned life insurance income	(28,922)	(29,736)
Other	4,179	4,044
Total	$ 1,430,551	$ 1,040,067

The components of the net deferred tax asset at December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 852,176	$ 642,587
Unrealized loss on available-for-sale securities	294,662	-
Supplemental executive retirement plan	135,310	116,936
Deferred PPP fees	-	35,405
Other	73,990	13,832
Total gross deferred tax assets	1,356,138	808,760
Deferred tax liabilities:		
Deferred loan costs	(149,251)	(125,448)
Depreciation on premises and equipment	(192,414)	(218,180)
Prepaid expenses	(23,440)	(34,274)
Unrealized gains on available-for-sale securities	-	(18,390)
Total gross deferred tax liabilities	(365,105)	(396,292)
Net deferred tax assets, included in other assets	$ 991,033	$ 412,468

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, 2022.

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, 2022 and 2021, 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, 2019.

The CARES Act did not have any impact on the Company's 2022 tax provision.

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 $6,572,897 at December 31, 2022, and $7,754,717 at December 31, 2021. During 2022, $-0- of advances were made and repayments totaled $758,696. Loans receivable totaling $423,124 were included as loans to related parties as of December 31, 2021, however the accompanying borrower is no longer considered to be related party as of December 31, 2022. Deposits of related parties totaled $11,209,755 and $7,944,378 at December 31, 2022 and 2021, respectively.

The Company paid legal fees of approximately $390 and $4,314 to a law firm of a director for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, is as follows:

	2022	2021
Commitments to grant loans	$ 12,053,592	$ 6,626,250
Unfunded commitments under lines of credit	71,399,559	76,084,404
Standby letters of credit	5,378,845	8,075,066

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, 2022 and 2021 was $5,378,845 and $8,075,066, respectively. The current amount of the liability as of December 31, 2022 and 2021, 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, 2022, 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, 2022 and, due to the Company formation in 2022, Bank only actual capital amounts and ratios at December 31, 2021, are presented below (dollars in thousands):

	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%

	2021							
	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)	$ 44,758	12.90%	$ ≥ 27,752	≥ 8.0%	$ ≥ 36,425	≥ 10.5%	$ ≥ 34,691	≥ 10.0%
Tier 1 capital (to risk-weighted asset)	35,482	10.23%	≥ 20,814	≥ 6.0%	≥ 29,487	≥ 8.5%	≥ 27,752	≥ 8.0%
Common Equity Tier 1 capital (to risk-weighted assets)	35,482	10.23%	≥ 15,611	≥ 4.5%	≥ 24,283	≥ 7.0%	≥ 22,549	≥ 6.5%
Tier 1 capital (to average assets)	35,482	7.45%	≥ 19,061	≥ 4.0%	N/A	N/A	≥ 23,827	≥ 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 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.

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

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, 2022 and 2021 are as follows:

	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

	December 31, 2021			
	Level I	Level II	Level III	Total
Fair value measured on a recurring basis:				
U.S. government securities	$ -	$ 30,000,000	$ -	$ 30,000,000
Mortgage-backed securities in government-sponsored entities	-	13,858,111	-	13,858,111
Total	$ -	$ 43,858,111	$ -	$ 43,858,111

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, 2022, is as follows:

	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

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

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

	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:

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.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. Impaired loans with current year write downs are included as Level III fair values, based upon the lowest level of input that is significant to the fair value measurements. There were no impaired loans carried at fair value at December 31, 2022 and 2021.

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

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, 2022 and 2021, (in thousands):

	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	-	-	-	-	-

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

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

	2021				
	Carrying Value	Level I	Level II	Level III	Fair Value
Financial assets:					
Cash and short-term time deposits	$ 10,646	$ 10,646	$ -	$ -	$ 10,646
Securities available for sale	43,858	-	43,858	-	43,858
Securities held to maturity	9,562	-	9,520	-	9,520
Loans receivable, net	384,907	-	-	387,940	387,940
Restricted investment in bank stock	1,246	-	1,246	-	1,246
Servicing rights	73	-	75	-	75
Accrued interest receivable	886	-	886	-	886
Financial liabilities:					
Demand and savings deposits	$ 329,008	$ -	$ 329,008	$ -	$ 329,008
Time deposits	70,979	-	71,698	-	71,698
Accrued interest payable	145	-	145	-	145
Short-term borrowings	9,000	-	9,000	-	9,000
Long-term borrowings	15,280	-	15,285	-	15,285
Subordinated debt	5,953	-	6,599	-	6,599
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.

17. REVENUE RECOGNITION (CONTINUED)

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.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2022 and 2021.

	2022	2021
Noninterest income		
In-scope of Topic 606		
Service charges on deposits	$ 381,125	$ 346,670
Referral fee income	186,699	-
Other	207,611	184,667
Noninterest income (in-scope of Topic 606)	775,435	531,337
Noninterest income (out of scope of Topic 606)	284,345	186,973
Total	$ 1,059,780	$ 718,310

17. REVENUE RECOGNITION (CONTINUED)

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, 2022 and December 31, 2021, 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, 2022, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 15, 2023, the date these financial statements were available to be issued.

EXTON
800 N. Pottstown Pike
Exton, PA 19341
610.363.9400

WEST CHESTER
844 Paoli Pike
West Chester, PA 19380
610.235.4700

WAYNE
321 W. Lancaster Avenue
Wayne, PA 19087
610.710.4100

Stock Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.

P.O. Box 1342 | Brentwood, NY 11717

Phone: 1-800-733-1121 | shareholder@broadridge.com