2020
Annual Report

1st Colonial Bancorp, Inc.

1st Colonial Bancorp, Inc.

April 6, 2021

Dear Fellow Shareholders,

We hope this letter finds you well. It has certainly been an exciting yet challenging year, dealing with the unprecedented health and economic impact associated with the COVID-19 pandemic. We are incredibly proud of and thankful for our dedicated Team Members, who demonstrated an unwavering commitment to each other and our customers through the most challenging of times. As a result of their resiliency and dedication, we met our financial objectives for the year. We seamlessly deployed our business continuity plan to ensure the safety of everyone as we operated the bank in a remote environment. We immediately participated in the Cares Act Paycheck Protection Program ("PPP"), funding 337 PPP loans for $48 million to businesses that desperately needed support. During the year, we provided much needed payment relief during this difficult economic time to over 350 customers, initially deferring $680 thousand of interest.

Throughout 2020, we managed to attract and retain key talent, that share the same values and cultural aspirations, in both operational and revenue generation roles. We realized growth in our assets of 11% and increased deposits by 8%. The turnaround and growth in our residential lending business performance had a significant impact on our overall profitability. That coupled with the rebuilding of our commercial loan pipeline, along with disciplined credit policy changes has positioned us well for 2021 and beyond. Our focus remains on relationship banking opportunities and we have invested in a team focused on generating high quality Small Business Administration ("SBA") loans to help support local economic growth and prosperity in the communities we serve.

In an effort to support our growth plan, we successfully raised $10.75 million of subordinated debt, down streaming $9 million to the Bank from Bancorp. We entered into a lease agreement for our new full-service Branch Office located in Limerick, Pennsylvania. The expansion provides access to very attractive markets in Pennsylvania and allows for growth in and around southeastern Pennsylvania. We continue to look for lending teams to facilitate expansion in southern New Jersey.

Our planned technology upgrades will happen throughout 2021, with our goal of expanding our digital delivery by year end. We have made incredible progress so far and have embraced the use of technology that will provide for a better customer experience, as well as improve our operating efficiency. In the interim, we will continue to deliver on our concierge banking model, where we "bring the bank to you" in all of our markets. We continue to invest in our Risk Management, Operations and Compliance areas to ensure that we operate in a safe and compliant manner.

For 2021, we remain firmly committed to executing upon our strategic priorities and increasing shareholder value. Although future economic conditions remain uncertain, the new stimulus package coupled with expanding access and availability of vaccines should lead to economic improvement. We believe that we are well positioned to capitalize on future growth opportunities.

Sincerely,

Linda M. Rohrer	Robert B. White
Chairman of the Board	President & Chief Executive Officer

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
1st Colonial Bancorp, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of 1st Colonial Bancorp, Inc. and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 1st Colonial Bancorp, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
March 30, 2021

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

	December 31, 2020	December 31, 2019
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	$ 37,026	$ 46,348
Federal funds sold	14	9
Total cash and cash equivalents	37,040	46,357
Investments held to maturity (fair value of $55,155 at December 31, 2020 and $42,767 at December 31, 2019)	55,155	42,767
Securities available for sale ("AFS") (amortized cost of $80,303 at December 31, 2020 and $50,865 at December 31, 2019)	81,872	51,224
Bank stock, at cost	1,739	2,138
Mortgage loans held for sale	21,859	4,449
Loans	423,147	419,798
Less allowance for loan losses	(5,624)	(6,671)
Net loans	417,523	413,127
Premises and equipment, net	769	691
Accrued interest receivable	1,811	1,697
Deferred tax assets	1,169	1,454
Bank-owned life insurance	14,739	9,807
Other assets	2,380	1,492
Total assets	$ 636,056	$ 575,203
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	$ 565,820	$ 522,252
Subordinated debt, net of issuance costs	10,404	-
Other borrowings	2,325	2,290
Accrued interest payable	329	130
Other liabilities	3,492	2,625
Total liabilities	582,370	527,297
Shareholders' equity:		
Common stock, $0 par value. Authorized 10,000,000 shares; issued 5,099,863 and 5,072,920 shares as of December 31, 2020 and 2019, respectively, and outstanding of 4,956,837 and 4,904,122 shares at December 31, 2020 and 2019, respectively	-	-
Preferred stock. Authorized 1,000,000 shares, no shares issued	-	-
Additional paid-in capital	38,035	36,776
Retained earnings	15,393	11,720
Accumulated other comprehensive income	1,106	258
Treasury stock at cost, 137,876 shares	(848)	(848)
Total shareholders' equity	53,686	47,906
Total liabilities and shareholders' equity	$ 636,056	$ 575,203

See accompanying notes to consolidated financial statements.

1ST COLONIAL BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations
For the years ended December 31,

(Dollars in thousands, except share data)	2020	2019
Interest income:		
Loans	$ 20,514	$ 21,461
Federal funds sold and interest-bearing deposits	221	338
Investments:		
Taxable	1,236	1,259
Nontaxable	580	933
Total interest income	22,551	23,991
Interest expense:		
Deposits	3,890	5,369
Subordinated debt	276	-
Other borrowings	24	67
Total interest expense	4,190	5,436
Net interest income	18,361	18,555
Provision for loan losses	2,140	3,184
Net interest income after provision for loan losses	16,221	15,371
Other income:		
Gain on sales of mortgage loans held for sale	4,049	2,111
Mortgage fee income	531	242
Bank-owned life insurance income	432	239
Service charges on deposit accounts	106	128
Gain on sale of securities	184	4
Gain on sale of guaranteed portion of SBA loans	243	-
Gain (loss) on real estate owned	3	(163)
Other income and fees	409	424
Total other income	5,957	2,985
Other expenses:		
Compensation and employee benefits	9,691	7,786
Data processing expense	1,437	1,481
Occupancy and equipment expenses	945	926
Professional services	933	799
FDIC and state assessments	357	221
Impaired loans and other real estate owned expenses	269	480
Advertising expense	192	308
Other operating expenses	1,979	2,278
Total other expenses	15,803	14,279
Income before income tax expense	6,375	4,077
Income tax expense	1,620	853
Net income	$ 4,755	$ 3,224
Earnings per share:		
Basic earnings per share	$ 0.96	$ 0.66
Diluted earnings per share	$ 0.95	$ 0.64

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the years ended December 31,					
	2020			2019		
(In thousands)	Before tax amount	Tax expense (benefit)	Net of tax amount	Before tax amount	Tax expense (benefit)	Net of tax amount
Net income	$ 6,375	$ 1,620	$ 4,755	$ 4,077	$ 853	$ 3,224
Other comprehensive income:						
Net unrealized gains on AFS investment securities:						
Net unrealized holding gains arising during the period	1,394	412	982	742	205	537
Less reclassification adjustment for net gains on sales realized in net income	184	50	134	4	1	3
Total net unrealized gains on AFS investment securities	1,210	362	848	738	204	534
Other comprehensive income	1,210	362	848	738	204	534
Total comprehensive income	$ 7,585	$ 1,982	$ 5,603	$ 4,815	$ 1,057	$ 3,758

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2020 and 2019

(In thousands)	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
Balance at January 1, 2019	$ -	$ -	$ 33,719	$ 11,101	$ (276)	$ (848)	$ 43,696
Stock dividend			2,605	(2,605)			-
Stock issued			373				373
Stock issuance expenses			(3)				(3)
Net unrealized gain on securities available for sale, net of tax					534		534
Stock-based compensation			82				82
Net income				3,224			3,224
Balance at December 31, 2019	-	-	36,776	11,720	258	(848)	47,906
Stock dividend			1,082	(1,082)			-
Stock issued			116				116
Stock issuance expenses			(2)				(2)
Net unrealized gain on securities available for sale, net of tax					848		848
Stock-based compensation			63				63
Net income				4,755			4,755
Balance at December 31, 2020	$ -	$ -	$ 38,035	$ 15,393	$ 1,106	$ (848)	$ 53,686

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019

(In thousands)	2020	2019
Cash flows from operating activities:		
Net income	$ 4,755	$ 3,224
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	242	238
Net amortization of premium on securities	438	219
Net accretion of deferred fees and costs on loans	(1,321)	(387)
Amortization of issuance costs on long-term debt	12	-
Stock-based compensation expense	63	82
Gain on sale of investment securities	(184)	(4)
Gain on sales of mortgage loans held for sale	(4,049)	(2,111)
Gain on sales of guaranteed portion of SBA loans	(243)	-
Provision for loan losses	2,140	3,184
Cash disbursed for mortgage banking activities	(150,044)	(81,450)
Cash received for mortgage banking activities	136,683	82,101
Net (gains) losses on sales of OREO	(3)	163
Increase in cash value of bank-owned life insurance, net	(432)	(239)
Increase in deferred income tax benefit	(77)	(638)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(114)	40
Increase in other assets	(888)	(548)
Increase in accrued interest payable	199	2
Increase in other liabilities	867	764
Total adjustments	(16,711)	1,416
Net cash (used in) provided by operating activities	(11,956)	4,640
Cash flows from investing activities:		
Proceeds from maturities and calls of AFS investment securities	-	5,000
Proceeds from sales of AFS investment securities	1,684	2,250
Proceeds from principal repayment of AFS investment securities	16,942	13,246
Proceeds from maturities of securities held to maturity	44,993	63,071
Purchases of securities available for sale	(48,318)	(15,227)
Purchases of securities held to maturity	(57,381)	(46,712)
Redemption (purchase) of Federal Home Loan Bank stock	399	(174)
Proceeds from sale of real estate owned	122	663
Increase in loans receivable, net	(5,091)	(17,842)
Capital expenditures	(320)	(131)
Purchase of life insurance policies	(4,500)	(1,200)
Net cash (used in) provided by investing activities	(51,470)	2,944
Cash flows from financing activities:		
Net increase in deposits	43,568	32,156
Net increase (decrease) in short-term borrowings	35	(5,867)
Proceeds from long-term borrowings, net of issuance costs	10,392	-
Proceeds from exercise of stock options	116	373
Stock issuance costs	(2)	(3)
Net cash provided by financing activities	54,109	26,659
Net (decrease) increase in cash and cash equivalents	(9,317)	34,243
Cash and cash equivalents at beginning of year	46,357	12,114
Cash and cash equivalents at end of year	$ 37,040	$ 46,357
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ 3,991	$ 5,434
Income taxes paid	1,368	1,021
Noncash items:		
Net change in unrealized gain on securities available for sale, net of taxes of $362 and $204 for 2020 and 2019, respectively	$ 848	$ 534
Transfer to real estate owned	119	826

See accompanying notes to the consolidated financial statements.

Note 1. Nature of Operations

1st Colonial Bancorp, Inc. (the "Company", "We" or "Our") is a Pennsylvania corporation headquartered in Cherry Hill, New Jersey, and the parent company of 1st Colonial Community Bank (the "Bank"). The Bank opened for business on June 30, 2000 and provides a wide range of business and consumer financial services through its two New Jersey branch offices located in Collingswood and Westville and a loan production office in Haddonfield, New Jersey.

The Company was organized as the holding company for the Bank, in connection with the reorganization approved by the Bank's shareholders at the annual meeting on June 12, 2002. As a bank holding company registered under the Bank Holding Company Act of 1956, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank was a national bank until November 1, 2012 when it was granted a state charter by the New Jersey Department of Banking and Insurance. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's operations and those of the Bank are subject to supervision and regulation by FRB, the FDIC, and the New Jersey Department of Banking and Insurance. The principal activity of the Bank is to provide its local communities with general commercial and retail banking services. The Bank is managed as one business segment.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the parent company, 1st Colonial Bancorp, Inc. and its wholly owned subsidiary, 1st Colonial Community Bank. Prior period amounts have been reclassified, where necessary, to conform to current year classification.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from banks and federal funds sold. Generally, federal funds sold are repurchased the following day.

Investments Held to Maturity

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using a method that produces results that approximate level yield over the estimated remaining term of the underlying security.

Securities Available for Sale

Securities not classified as held to maturity are classified as available-for-sale and are stated at fair value. Unrealized gains and losses are excluded from earnings and are reported as accumulated other comprehensive income (loss), net of tax, as a separate component of shareholders' equity, until realized. Gains and losses are determined using the specific-identification method and are accounted for on a trade-date basis.

Bank Stock

The Bank carries its investments in Atlantic Community Bankers Bank ("ACBB") stock and Federal Home Loan Bank ("FHLB") stock at their amortized cost because they do not have a readily determinable fair value. These investments are included in bank stock in the consolidated statements of financial condition.

The Bank is required to maintain an investment in ACBB stock. The Bank had $40 thousand in ACBB stock as of December 31, 2020 and 2019, respectively.

The Bank is required to acquire and hold shares of capital stock in the FHLB based upon a percentage of the Bank's FHLB borrowings, unused borrowing capacity, and the amount of residential first mortgage loans sold to the FHLB. The Bank had $1.7 million and $2.1 million in FHLB stock as of December 31, 2020 and 2019. The Bank carries its investment in FHLB stock at cost, or par value, and evaluates FHLB stock for impairment based on the ultimate recoverability of par value rather than by recognizing temporary declines in value. As part of the impairment assessment of FHLB stock, management considers, among other things, (i) the significance and length of time any declines in net assets of the FHLB compared to its capital stock, (ii) commitments by the FHLB to make payments required by law or regulations and the level of such payments in relation to its operating performance; (iii) the impact of legislative and regulatory changes on financial institutions and, accordingly, the customer base of the FHLB; and (iv) the liquidity position of the FHLB. The FHLB has access to the U.S. government-Sponsored Enterprise Credit Facility, a secured lending facility that serves as a liquidity backstop, substantially reducing the likelihood that the FHLB would need to sell securities to raise liquidity and, thereby, cause the realization of large economic losses. The FHLB is rated AAA and is likely to remain unchanged based on expectations that the FHLB has a very high degree of government support and was in compliance with all regulatory capital requirements as of December 31, 2020. Based on the above, we have determined there was no other-than-temporary impairment related to our FHLB stock investment as of December 31, 2020 and 2019.

Mortgage Loans Held for Sale

The Bank originates and sells residential mortgage loans servicing released to the secondary market. This activity enables the Bank to fulfill the credit needs of the community while reducing its overall exposure to interest rate and credit risk. These loans are reported at the lower of their cost or fair market value.

Loans

Loans are stated at the principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the principal amount outstanding. Loan origination fees and related direct costs are deferred and amortized to interest income over the term of the respective loan as a yield adjustment.

Loans are reported as non-accrual if they are past due as to principal or interest payments for a period of 90 days or more. Exceptions may be made if a loan is deemed by management to be well collateralized and in the process of collection. Loans that are on a current payment status may also be classified as non-accrual if there is serious doubt as to the borrower's ability to continue interest or principal payments. When a loan is placed on non-accrual all unpaid interest is reversed from interest income. Interest payments received on impaired nonaccrual loans are normally applied against principal. Excess proceeds received over the principal amounts due on impaired non-accrual loans are recognized as income on a cash basis. We recognize income under the accrual basis when the principal payments on the loans become current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, we do not recognize income. Generally, loans are restored to accrual status when the loan 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.

Impaired loans are measured based on the present value of expected future discounted cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral dependent. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

A loan modification is deemed a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) a concession is made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. All loans classified as TDRs are considered to be impaired. TDRs are returned to an accrual status when the loan is brought current, has performed in accordance with the contractual restructured terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual restructured principal and interest is no longer in doubt. Our policy for TDRs is to recognize interest income on currently performing restructured loans under the accrual method.

Allowance for Loan Losses

Our loan portfolio is subject to varying degrees of credit risk. The allowance for loan losses ("allowance") reflects management's best estimate of losses, both known and inherent, in the existing loan portfolio. Management uses significant estimates to determine the allowance. Management's estimates consider such factors as changes in the nature and volume of the portfolio, overall portfolio quality, and review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The provision for loan losses charged to operating expenses represents the amount necessary to maintain an appropriate allowance. Loan losses are charged directly against the allowance when loans are determined to be uncollectable. Recoveries on previously charged-off loans are credited to the allowance when received.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the useful lives or the remaining lease term. Software costs, furniture, and equipment have depreciable lives of 3 to 10 years. Building and improvements have estimated useful lives of 5 to 35 years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Leases

Our leases are operating leases and are predominantly related to real estate. As a lessee we record, for all leases with a lease term of more than 12 months, an asset representing our right to use the underlying asset and a liability to make lease payments. The right-of-use ("ROU") asset is included in other assets and the lease liability is included in other liabilities on the balance sheet. The amortization of operating lease ROU assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in occupancy and equipment expense within other expense. The fixed lease expense is recognized on a straight-line basis over the life of the lease. The Company has elected to exclude leases with original terms of less than one year from the operating lease ROU assets and lease liabilities.

Other Real Estate Owned

Other real estate owned ("OREO") is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Real estate owned is recorded at the lower of the carrying value of the loan or the fair value of the property, net of estimated selling costs. Costs relating to the development or improvement of properties are capitalized, while expenses related to the operation and maintenance of properties are expensed as incurred. Gains or losses upon dispositions are reflected in earnings as realized. The Bank had no OREO as of December 31, 2020 and 2019.

Bank-Owned Life Insurance

We have bank-owned life insurance ("BOLI") policies on certain officers and key employees. These policies are reflected on the consolidated statements of financial condition at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in non-interest income. During 2020 we purchased an additional $4.5 million in BOLI policies which mainly covered new key employees. BOLI was valued at $14.7 million and $9.8 million as of December 31, 2020 and 2019, respectively. The total income recognized on the BOLI polices was $432 thousand and $239 thousand in 2020 and 2019, respectively. The maximum amount that will be paid to all employees is $1.0 million.

Earnings Per Share

Basic earnings per share is calculated as net income divided by the weighted average number of shares outstanding during the period. Dilutive earnings per share include dilutive common stock equivalents as computed under the treasury stock method using average common stock prices.

Income Taxes

The Company and the Bank file a consolidated federal income tax return and a consolidated New Jersey income tax return. The Company and the Bank file separate Pennsylvania tax returns. Income taxes are allocated to the Company and the Bank based on the contribution of their income or use of their loss in the consolidated return. As of December 31, 2020, tax years 2017 through 2019 are subject to federal examination by the IRS and years 2016 through 2019 are subject to state examination by various state taxing authorities. Tax regulations are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become available.

We account for income taxes in accordance with FASB ASC Topic 740-10, “Accounting for Uncertainty in Income Taxes”, (“ASC 740”) which includes guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. We had no unrecognized tax benefits or accrued interest and penalties as of December 31, 2020 and 2019. We classify interest and penalties as an element of tax expense.

Stock Options

As of December 31, 2020, the Company has one active and four discontinued stock-based compensation plans, which are described more fully in “Note 18 - Stock Option Plans” to the Consolidated Financial Statements. The Company accounts for all share-based payments to be recognized as compensation expense in the consolidated financial statements based on their fair values at the grant date. That expense will be recognized on a straight-line basis over the period during which services are provided in exchange for the award, known as the requisite service period (usually, the vesting period).

Recent Accounting Pronouncements

In June 2016, FASB issued Accounting Standards Update No. 2016-13, “Financial Instruments-Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). The amendments in ASU 2016-13 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The amendments in ASU 2016-13 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 allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.

Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value. The amendments in ASU 2016-13 require that credit losses be presented as an allowance rather than a writedown.

The amendments in ASU 2016-13 will become effective for the Company for financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. An entity will apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, modified-retrospective approach).

We are reviewing our systems and data collection to determine the necessary changes to our current process. We are completing due diligence on vendors to assist in developing a methodology that is in compliance with this ASU. We are currently evaluating the impact of the amendments in ASU 2016-13 on our consolidated financial statements. We believe that expected credit losses under ASU 2016-13 will generally result in earlier loss recognition on our loan portfolio.

In March 2017, FASB issued Accounting Standards Update No. 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)" ("ASU 2017-08"). Stakeholders raised concerns that current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. Stakeholders noted that generally, in the United States, callable debt securities are quoted, priced, and traded assuming a model that incorporates consideration of calls (also referred to as "yield-to-worst" pricing). The amendments in ASU 2017-08 shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. An entity should apply the amendments in ASU 2017-08 on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We adopted ASU 2017-08 during the first quarter of 2020 and it had no effect on our financial statements.

In August 2018, FASB issued Accounting Standards Update No. 2018-13, "Fair Value Measurement (Topic 820)" ("ASU 2018-13"). ASU 2018-13 removes, modifies and adds certain disclosures to improve the usefulness of the information. This Update is effective in annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. Adoption is required on both a prospective and retrospective basis depending on the amendment. We adopted ASU 2018-13 during the first quarter of 2020 and it had no effect on our Consolidated Financial Statements and related disclosures.

Note 3. Common Stock Dividends

On January 29, 2020, the Company declared a 5% stock dividend to all shareholders of record as of April 1, 2020 payable on April 15, 2020. On January 30, 2019, the Company declared a 5% stock dividend to all shareholders of record as of April 1, 2019 payable on April 15, 2019.

Note 4. Cash and Due from Banks

The Bank was required to maintain certain daily average reserve balances in accordance with FRB requirements. On March 15, 2020, the FRB Board reduced reserve requirements to 0% effective March 26, 2020. This action eliminated reserve requirements for all depository institution. As of December 31, 2019, the FRB reserve requirement was $634 thousand. In addition, the Bank was required to maintain $50 thousand in cash reserves at its correspondent banks as of December 31, 2020 and 2019.

Note 5. Investment Securities

A comparison of amortized cost and approximate fair value of investment securities held to maturity and securities available for sale as of December 31, 2020 and 2019 is as follows:

As of December 31, 2020

(In thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments held to maturity:				
Municipal securities	$ 55,155	$ -	$ -	$ 55,155
Total	$ 55,155	$ -	$ -	$ 55,155
Securities available for sale:				
U.S. government securities	$ 13,500	$ 23	$ (6)	$ 13,517
Mortgage-backed securities	56,768	1,318	-	58,086
Corporate bonds	10,035	260	(26)	10,269
Total	$ 80,303	$ 1,601	$ (32)	$ 81,872

As of December 31, 2019

(In thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investments held to maturity:				
Municipal securities	$ 42,767	$ -	$ -	$ 42,767
Total	$ 42,767	$ -	$ -	$ 42,767
Securities available for sale:				
U.S. government securities	$ 3,000	$ -	$ (1)	$ 2,999
Mortgage-backed securities	47,865	423	(63)	48,225
Total	$ 50,865	$ 423	$ (64)	$ 51,224

The scheduled maturities of investment securities held to maturity and securities available for sale as of December 31, 2020 are as follows:

	HTM Investments		AFS Investmemts	
(In thousands)	Amortized Cost	Fair value	Amortized Cost	Fair value
Due in one year or less	$ 53,222	$ 53,222	$ 3,070	$ 3,088
Due after one year up to five years	1,898	1,898	9,090	9,271
Due after five years up to ten years	35	35	36,306	37,116
Due after ten years	-	-	31,837	32,397
	$ 55,155	$ 55,155	$ 80,303	$ 81,872

Proceeds from sales and maturities of securities available for sale totaled $1.7 million and $2.3 million during 2020 and 2019, respectively. Gains realized from the sale of securities were $184 thousand and $4 thousand in 2020 and 2019, respectively.

As of December 31, 2020 and 2019, investment securities with a market value of $74.1 million and $78.6 million, respectively, were pledged as collateral for uninsured municipal deposits, uninsured deposits underlying retail repurchase agreements, and the FHLB for potential borrowings.

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions as of December 31, 2020 and 2019 are as follows:

As of December 31, 2020

	Less than 12 months			12 months or longer			Total		
(In thousands)	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions
Investments held to maturity:									
Municipal securities	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Securities available for sale:									
U.S. government securities	$ 3,994	$ (6)	1	$ -	$ -	-	$ 3,994	$ (6)	1
Mortgage-backed securities	-	-	-	-	-	-	-	-	-
Corporate bonds	2,487	(26)	3	-	-	-	2,487	(26)	3
Total	$ 6,481	$ (32)	4	$ -	$ -	-	$ 6,481	$ (32)	4

As of December 31, 2019

	Less than 12 months			12 months or longer			Total		
(In thousands)	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions	Fair value	Gross unrealized losses	Number of positions
Investments held to maturity:									
Municipal securities	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Total	$ -	$ -	-	$ -	$ -	-	$ -	$ -	-
Securities available for sale:									
U.S. government securities	$ 2,999	$ (1)	1	$ -	$ -	-	$ 2,999	$ (1)	1
Mortgage-backed securities	13,430	(44)	7	1,143	(19)	1	14,573	(63)	8
Total	$ 16,429	$ (45)	8	$ 1,143	$ (19)	1	$ 17,572	$ (64)	9

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary by the Company. The temporary impairment of fixed rate investments is likely to continue in a rising interest rate environment. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because we have the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other than temporarily impaired.

All temporarily impaired investments are bank-qualified investments. There has been no significant change in the credit quality of issuers since the securities were purchased.

Note 6. Loans Receivable

Loans receivable consist of the following at December 31, 2020 and 2019:

(In thousands)	December 31, 2020	December 31, 2019
Commercial real estate	$ 175,801	$ 187,099
Construction and land development	36,764	33,448
Commercial	55,755	28,898
Residential real estate	152,895	166,439
Consumer	1,932	3,914
	423,147	419,798
Less allowance for loan losses	(5,624)	(6,671)
	$ 417,523	$ 413,127

The Bank is subject to a loans-to-one-borrower limitation of 15% of capital funds. As of December 31, 2020, the loans-to-one-borrower limitation was $8.7 million compared to $8.1 million as of December 31, 2019. As of December 31, 2020 and 2019, there are no loans outstanding or committed to any one borrower that individually or in the aggregate exceed those limits.

The Bank lends primarily to customers in its local market area. Most loans are mortgage loans. Mortgage loans include loans secured by commercial and residential real estate and construction loans. Accordingly, lending activities could be affected by changes in the general economy, the regional economy, or real estate values. As of December 31, 2020 and 2019, mortgage loans totaled $365.5 million and $387.0 million, respectively. Mortgage loans represent 86.4% and 92.2% of total gross loans as of December 31, 2020 and 2019, respectively.

During 2020 we participated in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") and originated $47.1 million in PPP loans. The majority of these loans were to our existing customers. As of December 31, 2020, approximately 41% of our PPP loans have been forgiven by the SBA. PPP loans totaling $27.6 million are included in the commercial loan balance in the above table.

As part of the process of determining the allowance for loan losses ("allowance") management segments ~~of~~ the loan portfolio by product type. For the commercial real estate, construction, and commercial loan segments, periodic reviews of the individual loans are performed by both in-house staff as well as external loan reviewers. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

Pass – Loans considered to be satisfactory with no indications of deterioration.

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

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

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

Non-accrual (substandard non-accrual, doubtful): includes credits that demonstrate serious problems to the point that it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement.

In addition, the remaining segments of the loan portfolio, which include residential real estate and consumer loans are allocated portions of the allowance based on their performance status.

The following tables present risk ratings for each loan portfolio classification as of December 31, 2020 and December 31, 2019.

December 31, 2020 (In thousands)	Pass	Special Mention	Substandard	Doubtful	Nonaccrual	Total
Commercial real estate	$ 171,728	$ 2,034	$ 1,153	$ -	$ 886	$ 175,801
Construction and land development	33,381	1,286	-	-	2,097	36,764
Commercial	54,392	468	65	-	830	55,755
Residential real estate	151,611	239	64	-	981	152,895
Consumer	1,925	7	-	-	-	1,932
Total loans, net of unearned income	$ 413,037	$ 4,034	$ 1,282	$ -	$ 4,794	$ 423,147

December 31, 2019 (In thousands)	Pass	Special Mention	Substandard	Doubtful	Non-accrual	Total
Commercial real estate	$ 176,860	$ 4,024	$ 4,267	$ -	$ 1,948	$ 187,099
Construction and land development	32,741	-	312	-	395	33,448
Commercial	24,088	1,386	1,015	-	2,409	28,898
Residential real estate	164,546	358	395	-	1,140	166,439
Consumer	3,914	-	-	-	-	3,914
Total loans, net of unearned income	$ 402,149	$ 5,768	$ 5,989	$ -	$ 5,892	$ 419,798

The following tables present an aging analysis of past due payments for each loan portfolio classification as of December 31, 2020 and December 31, 2019.

December 31, 2020 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ 251	$ -	$ -	$ 886	$ 174,664	$ 175,801
Construction and land development	-	-	-	2,097	34,667	36,764
Commercial	43	-	-	830	54,882	55,755
Residential real estate	348	-	-	981	151,566	152,895
Consumer	2	-	-	-	1,930	1,932
Total loans, net of unearned income	$ 644	$ -	$ -	$ 4,794	$ 417,709	$ 423,147

December 31, 2019 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Non-accrual	Current	Total
Commercial real estate	$ 1,498	$ 33	$ -	$ 1,948	$ 183,620	$ 187,099
Construction and land development	-	-	-	395	33,053	33,448
Commercial	93	-	-	2,409	26,396	28,898
Residential real estate	198	-	-	1,140	165,101	166,439
Consumer	-	9	-	-	3,905	3,914
Total loans, net of unearned income	$ 1,789	$ 42	$ -	$ 5,892	$ 412,075	$ 419,798

The Bank had 14 non-accrual loans as of December 31, 2020 in the amount of $4.8 million compared to 28 non-accrual loans in the amount of $5.9 million as of December 31, 2019. During 2020 we transferred $5.4 million to non-accrual; recorded $2.7 million in principal reductions and charged-off $3.4 million. All of the non-accrual loans were impaired. If interest had accrued on these loans, such income would have been approximately $367 thousand and $432 thousand for the years ended December 31, 2020 and 2019, respectively. The specific reserves associated with the non-accrual loans were $0 and $1.6 million as of December 31, 2020 and 2019, respectively.

Troubled Debt Restructuring

The following table details our TDRs that are on an accrual status and non-accrual status as of December 31, 2020 and December 31, 2019.

	As of December 31, 2020			
(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	3	$ 72	$ 466	$ 538
Commercial	1	-	781	781
Residential real estate	4	276	-	276
Total	8	$ 348	$ 1,247	$ 1,595

	As of December 31, 2019			
(In thousands)	Number of loans	Accrual Status	Non-Accrual Status	Total TDRs
Commercial real estate	3	$ 831	$ -	$ 831
Commercial	1	-	395	395
Residential real estate	3	250	298	548
Consumer	4	284	-	284
Total	11	$ 1,365	$ 693	$ 2,058

The balance of loans with modified terms due to COVID-19 as of December 31, 2020 totaled $807 thousand. These loans were modified in accordance with Section 4013 of the CARES Act. The CARES Act provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to TDR for a limited period of time to account for the effects of COVID-19 if (i) the loan modification is made between March 1, 2020 and the earlier of January 1, 2022 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019.

The following table presents the new TDRs that occurred during the year ended December 31, 2020. These TDRs were on non-accrual loans.

	Modifications by type for the year ended December 31, 2020							
(In thousands)	Number of loans	Rate	Term	Payment	Combination of types	Total	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ -	$ -	$ -	$ 781	$ 781	$ 1,933	$ 1,933
Total	2	$ -	$ -	$ -	$ 781	$ 781	$ 1,933	$ 1,933

During the year ended December 31, 2020, three TDR commercial loans defaulted and included the two new TDRs in 2020. The principal balance of the non-accrual TDRs was $1.9 million. We recognized total charge-offs of $1.1 million. The remaining balance was $781 thousand as of December 31, 2020.

Allowance for Loan Losses

The following table details the rollforward of the allowance and the loan portfolio disaggregated by loan portfolio classification for the twelve-months ended December 31, 2020 and 2019:

December 31, 2020 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 3,173	$ 689	$ 1,372	$ 1,386	$ 51	$ 6,671
Charge-offs	(1,781)	(393)	(1,624)	(48)	(10)	(3,856)
Recoveries	284	80	270	25	10	669
Provision (credit)	1,323	5	936	(95)	(29)	2,140
Ending balance	$ 2,999	$ 381	$ 954	$ 1,268	$ 22	$ 5,624
Ending balance: related to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: related to loans collectively evaluated for impairment	$ 2,999	$ 381	$ 954	$ 1,268	$ 22	$ 5,624
Loan Balances						
Ending balance	$ 175,801	$ 36,764	$ 55,755	$ 152,895	$ 1,932	$ 423,147
Ending balance: individually evaluated for impairment	$ 958	$ 2,097	$ 830	$ 1,257	$ -	$ 5,142
Ending balance: collectively evaluated for impairment	$ 174,843	$ 34,667	$ 54,925	$ 151,638	$ 1,932	$ 418,005

December 31, 2019 (In thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Residential real estate	Consumer	Total
Beginning balance	$ 2,341	$ 672	$ 927	$ 1,626 -	$ 61	$ 5,627
Charge-offs	(753)	(38)	(1,492)	(192)	(16)	(2,491)
Recoveries	102	-	181	56	12	351
Provision (credit)	1,483	55	1,756	(104)	(6)	3,184
Ending balance	$ 3,173	$ 689	$ 1,372	$ 1,386	$ 51	$ 6,671
Ending balance: related to loans individually evaluated for impairment	$ 876	$ 395	$ 536	$ 97	$ -	$ 1,904
Ending balance: related to loans collectively evaluated for impairment	$ 2,297	$ 294	$ 836	$ 1,289	$ 51	$ 4,767
Loan Balances						
Ending balance	$ 187,099	$ 33,448	$ 28,898	$ 166,439	$ 3,914	$ 419,798
Ending balance: individually evaluated for impairment	$ 2,779	$ 395	$ 2,659	$ 1,425	$ -	$ 7,258
Ending balance: collectively evaluated for impairment	$ 184,320	$ 33,053	$ 26,239	$ 165,014	$ 3,914	$ 412,540

The following tables details the impaired loans by loan classification as of December 31, 2020 and December 31, 2019.

	As of and for the year ended December 31, 2020					
(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
With no related allowance recorded:						
Commercial real estate	$ 1,382	$ 958	$ -	$ 992	$ -	$ 86
Construction	2,097	2,097	-	806	-	-
Commercial	1,648	830	-	1,357	-	11
Residential real estate	1,501	1,257	-	1,172	15	1
Consumer	-	-	-	-	-	-
Total:	$ 6,628	$ 5,142	$ -	$ 4,327	$ 15	$ 98
With an allowance recorded:						
Commercial real estate	$ -	$ -	$ -	$ 1,120	$ 5	$ -
Construction and land development	-	-	-	60	-	-
Commercial	-	-	-	384	-	-
Residential real estate	-	-	-	289	-	-
Consumer	-	-	-	-	-	-
Total:	$ -	$ -	$ -	$ 1,853	$ 5	$ -

	As of and for the year ended December 31, 2019					
(In thousands)	Unpaid principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized	Interest income recognized cash basis
With no related allowance recorded:						
Commercial real estate	$ 918	$ 652	$ -	$ 637	$ -	$ 34
Commercial	793	476	-	255	-	1
Residential real estate	869	725	-	775	-	-
Consumer	-	-	-	-	-	-
Total:	$ 2,580	$ 1,853	$ -	$ 1,667	$ -	$ 35
With an allowance recorded:						
Commercial real estate	$ 2,056	$ 2,051	$ 876	$ 1,782	$ 42	$ -
Construction and land development	435	645	395	450	-	-
Commercial	2,183	1,933	536	1,235	20	-
Residential real estate	904	776	97	661	17	-
Consumer	-	-	-	-	-	-
Total:	$ 5,578	$ 5,405	$ 1,904	$ 4,128	$ 79	$ -

Note 7. Premises and Equipment, Net

Premises and equipment as of December 31, 2020 and 2019 are summarized as follows (dollars in thousands):

		As of December 31,	
(In thousands)	Estimated Useful Lives	2020	2019
Land		$ 122	$ 122
Buildings and leasehold improvements	5 - 35 years	1,005	959
Furniture, fixtures and equipment	3 - 10 years	1,613	1,380
Premises and equipment, gross		2,740	2,461
Less accumulated depreciation and amortization		(1,971)	(1,770)
Premises and equipment, net		$ 769	$ 691

Depreciation expense was $242 thousand and $238 thousand for the years ended December 31, 2020 and 2019, respectively, and is recorded in occupancy and equipment expenses.

We lease our Collingswood branch location and Cherry Hill operations center. We own the building for our Westville, New Jersey branch.

Note 8. Deposits

Deposits consist of the following major classifications as of December 31, 2020 and 2019:

	As of December 31,			
	2020		2019	
(Dollars in thousand)	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Non-interest checking	$ 81,815	-	$ 61,457	-
Interest checking	247,838	0.24%	244,170	0.76%
Money market deposits	29,088	0.30%	11,777	0.48%
Savings deposits	92,596	0.29%	46,065	0.43%
Certificates of deposit ($250 and over)	41,624	1.41%	70,751	2.03%
Certificates of deposit (less than $250)	67,211	1.42%	67,032	2.07%
Brokered deposits	5,648	2.20%	21,000	2.04%
Total deposits	$ 565,820		$ 522,252	

The Bank has a concentration of deposits from local municipalities. Municipal deposits, which are mostly interest-checking accounts, were $230.2 million or 40.7% of total deposits as of December 31, 2020, and $223.3 million or 42.8% of total deposits as of December 31, 2019. Municipal deposit accounts in excess of $250 thousand are collateralized by investment securities with a carrying value of $54.9 million as of December 31, 2020 and a $107.0 million FHLB Municipal Letter of Credit.

Interest expense on deposits consisted of the following for the years ended December 31, 2020 and 2019:

(In thousands)	2020	2019
Interest checking	$ 1,206	$ 1,697
Money market deposits	89	62
Savings deposits	293	217
Certificates of deposit	2,302	3,393
Total interest expense on deposits	$ 3,890	$ 5,369

The following is a schedule of certificates of deposit, which includes the brokered deposits, by maturities as of December 31, 2020:

(In thousands)	As of December 31, 2020
2021	$ 75,270
2022	17,876
2023	12,055
2024	6,142
2025	3,140
Total certificates of deposits	$ 114,483

Note 9. Borrowing Availability

Federal Home Loan Bank

As of December 31, 2020, we had $40.1 million in borrowing capacity at the FHLB. The FHLB line of credit is secured with residential and commercial mortgage loans with an aggregate market value of $50.2 million and securities with an aggregate market value of $12 thousand. As of December 31, 2019, the FHLB borrowing capacity was $14.6 million and was secured with residential and commercial mortgage loans with an aggregate market value of $18.3 million and securities with an aggregate market value of $21 thousand. As of December 31, 2020 and 2019, the Bank had no outstanding borrowings against its lines of credit. The average balance of FHLB advances was $0 and $972 thousand for 2020 and 2019, respectively.

Repurchase Agreements

Historically, the Bank has sold securities under agreements to repurchase as a funding source. As of December 31, 2020 and 2019, the Bank had $2.3 million of securities sold under agreements to repurchase. As of December 31, 2020, these repurchase agreements had a weighted average fixed rate of 0.29% with maturity dates not exceeding one year. The underlying securities for the repurchase agreements had an aggregate market value of $2.5 million and $3.2 million as of December 31, 2020 and 2019, respectively, and were predominantly U.S. government-sponsored mortgage-backed securities.

Subordinated Debt

On August 26, 2020, the Company issued $10.750 million of 7.00% fixed-to-floating rate subordinated notes with a maturity date of September 1, 2030. The subordinated notes, which qualify as Tier 2 capital, bear interest at an annual rate of 7.00%, payable semi-annually in arrears commencing on March 1, 2021, and a floating rate of interest equivalent to the 3-month Secured Overnight Financing Rate (SOFR) plus 6.89% payable quarterly in arrears commencing on September 1, 2025. The subordinated debt issuance costs of approximately $359 thousand are being amortized over five years on a straight-line basis into interest expense.

Other Lines of Credit

As of December 31, 2020 and 2019, the Bank had an unsecured line of credit with Atlantic Community Bankers Bank ("ACBB") in the aggregate amount of $8.0 million. There was no outstanding balance as of December 31, 2020 and 2019. The average balance of the ACBB line was $11 thousand and $278 thousand for 2020 and 2019, respectively.

As of December 31, 2020, 1st Colonial Bancorp, Inc. had a secured line of credit with ACBB in the aggregate amount of $2.5 million compared to $5.0 million as of December 31, 2019. With the issuance of subordinated debt the Company decided to reduce the line amount. The ACBB line is secured with 100% of the voting stock of 1st Colonial Community Bank. As of December 31, 2020 and 2019, there were no outstanding balances against this line. There were no amounts outstanding in 2020 and 2019 under this line.

Note 10. Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculation for the years ended December 31, 2020 and 2019:

(In thousands, except for per share data)	Net Income		Average shares	Per share Amount	
2020:					
Basic earnings per share	$	4,755	4,956,837	$	0.96
Effect of dilutive stock equivalents		-	43,174		0.01
Diluted earnings per share	$	4,755	5,000,011	$	0.95
2019:					
Basic earnings per share	$	3,224	4,904,122	$	0.66
Effect of dilutive stock equivalents		-	128,568		0.02
Diluted earnings per share	$	3,224	5,032,690	$	0.64

Earnings per share is calculated on the basis of weighted average number of shares outstanding. Options to purchase 332,041 and 326,710 shares of common stock were outstanding as of December 31, 2020 and 2019, respectively. Options, to the extent dilutive, were included in the denominator in the computation of earnings per diluted share. Options to purchase 157,263 shares were antidilutive for 2020 and, therefore, excluded from the earnings per share calculation. There were no antidilutive options for 2019.

Note 11. Fair Value of Financial Instruments

Under FASB ASC Topic 820 "Fair Value Measurements and Disclosures" ("ASC Topic 820"), fair values are based on 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. When available, management uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, we use unobservable inputs to determine appropriate valuation adjustments using discounted cash flow methodologies.

Management uses its best judgment in estimating the fair value of our 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 we could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of these financial statements subsequent to those 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 period-end.

ASC Topic 820 provides guidance for estimating fair value when the volume and level of activity for an asset or liability has significantly declined and for identifying circumstances when a transaction is not orderly. ASC Topic 820 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 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: 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 2 includes debt securities with quoted prices that are traded less frequently then exchange-traded instruments. Valuation techniques include matrix pricing 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.

Level 3: 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).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. We did not have transfers of financial instruments within the fair value hierarchy during the years ended December 31, 2020 and 2019.

Items Measured on a Recurring Basis

Our available for sale investment securities are recorded at fair value on a recurring basis.

Fair value for Level 1 securities are determined by obtaining quoted market prices on nationally recognized securities exchanges. We do not have any level 1 securities.

Level 2 securities include obligations of U.S. government-sponsored agencies and debt securities with quoted prices, which are traded less frequently than exchange-traded instruments, whose value is determined using matrix pricing with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. The prices were obtained from third party vendors. This category generally includes our mortgage-backed securities and CMOs issued by U.S. government and government-sponsored agencies, and municipal bonds.

Items Measured on a Nonrecurring Basis

Non-accrual loans and TDRs are evaluated for impairment on an individual basis under FASB ASC Topic 310 "Receivables". The impairment analysis includes current collateral values, known relevant factors that may affect loan collectability, and risks inherent in different kinds of lending. When the collateral value or discounted cash flows less costs to sell is less than the carrying value of the loan a specific reserve (valuation allowance) is established. OREO is carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the real estate. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

For financial assets measured at fair value on a recurring and nonrecurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2020 and December 31, 2019 are as follows:

At December 31, 2020 (In thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets measured at fair value on a recurring basis				
Investment securities:				
U.S. government agencies	$ -	$ 13,517	$ -	$ 13,517
Mortgage-backed securities-residential	-	58,086	-	58,086
Corporate bonds	-	10,269	-	10,269
Total assets measured at fair value on a recurring basis	$ -	$ 81,872	$ -	$ 81,872
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 5,142	$ 5,142
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 5,142	$ 5,142

At December 31, 2019 (In thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets measured at fair value on a recurring basis				
Investment securities:				
U.S. government agencies	$ -	$ 2,999	$ -	$ 2,999
Mortgage-backed securities-residential	-	48,225	-	48,225
Total assets measured at fair value on a recurring basis	$ -	$ 51,224	$ -	$ 51,224
Assets measured at fair value on a non-recurring basis				
Impaired loans	$ -	$ -	$ 7,258	$ 7,258
Total assets measured at fair value on a non-recurring basis	$ -	$ -	$ 7,258	$ 7,258

The following methods and assumptions were used to estimate the fair values of our financial instruments at December 31, 2020 and December 31, 2019. 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 our assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between our disclosures and those of other companies may not be meaningful.

Cash and Cash Equivalents

The carrying amounts reported in the consolidated statements of financial condition for cash and cash equivalents are reasonable approximations of their fair values.

HTM Investment Securities

The items are generally short term in nature, and accordingly, the carrying amounts reported in the consolidated statements of financial condition are reasonable approximations of their fair values.

Accrued Interest Receivable and Accrued Interest Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

AFS Investment Securities

Fair values for investment securities are based on quoted market prices, if available (level 1). If quoted market prices are not available, then fair values are based on quoted market prices of comparable instruments (level 2).

Bank Stock

The fair value of bank stock is estimated at its carrying value and redemption price of $100 per share.

Mortgage Loans Held for Sale

Mortgage loans held for sale are generally sold within of few months of origination. Therefore, the fair value of mortgage loans held for sale are equal to their carrying amounts.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair value is based on carrying value. The fair value for other loans receivable was estimated using a discounted cash flow analysis, which uses interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Consideration was given to prepayment speeds, economic conditions, risk characteristics, and other factors considered appropriate.

Deposits

The fair values of deposits subject to immediate withdrawal, such as interest and noninterest checking, statement savings, and money market demand deposit accounts, are equal to their carrying amounts in the accompanying consolidated statements of financial condition. Fair values for certificates of deposit are estimated by discounting future cash flows using interest rates currently offered on certificates of deposit with similar remaining maturities.

Repurchase Agreements

Repurchase agreements are included in other borrowings on the consolidated statements of financial condition. The fair value of repurchase agreements is established using a discounted cash flow calculation that applies interest rates currently being offered on repurchase agreements with similar terms.

Short-Term Borrowings

Short-term borrowings are included in other borrowings on the consolidated statements of financial condition. The carrying amount of short-term borrowings approximates their fair value.

Subordinated Debt

The fair value of subordinated debt is based on the discounted value of contractual cash flows. The discount rate applied is estimated using rates currently available for subordinated debt with a similar maturity.

Off Balance-Sheet Instruments

Off-balance-sheet instruments are primarily comprised of loan commitments and unfunded lines of credit that are generally priced at market rate at the time of funding. Therefore, these instruments have nominal value prior to funding and are not shown in the table.

The estimated fair value of the Company's financial instruments as of December 31, 2020 and 2019 was as follows:

			Fair Value Measurements As of December 31, 2020		
(In thousands)	Carrying value	Estimated fair value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 37,040	$ 37,040	$ 37,040	$ -	$ -
Investments held to maturity	55,155	55,155	-	55,155	-
Investments available for sale	81,872	81,872	-	81,872	-
Bank stock, at cost	1,739	1,739	-	-	1,739
Mortgage loans held for sale	21,859	21,859	-	21,859	-
Loans receivable, net	417,523	419,954	-	-	419,954
Accrued interest receivable	1,811	1,811	-	-	1,811
Financial liabilities:					
Demand deposits	329,653	329,653	-	329,653	-
Money market deposits	29,088	29,088	-	29,088	-
Savings deposits	92,596	92,596	-	92,596	-
Certificates of deposit	114,483	116,071	-	116,071	-
Subordinated debt, net	10,404	10,371		10,371	-
Other borrowings	2,325	2,323	-	2,323	-
Accrued interest payable	329	329	-	329	-

	Fair Value Measurements As of December 31, 2019				
(In thousands)	Carrying value	Estimated fair value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 46,357	$ 46,357	$ 46,357	$ -	$ -
Investments held to maturity	42,767	42,767	-	42,767	-
Investments available for sale	51,224	51,224	-	51,224	-
Bank stock, at cost	2,138	2,138	-	-	2,138
Mortgage loans held for sale	4,449	4,449	-	4,449	-
Loans receivable, net	413,127	411,884	-	-	411,884
Accrued interest receivable	1,697	1,697	-	-	1,697
Financial liabilities:					
Demand deposits	305,627	305,627	-	305,627	-
Money market deposits	11,777	11,777	-	11,777	-
Savings deposits	46,065	46,065	-	46,065	-
Certificates of deposit	158,783	160,404	-	160,404	-
Other borrowings	2,290	2,274	-	2,274	-
Accrued interest payable	130	130	-	130	-

Note 12. Income Taxes

The components of income tax expense (benefit) are stated below:

	For the years ended December 31,	
(In thousands)	2020	2019
Income tax expense (benefit)		
Federal		
Current	$ 1,033	$ 843
Deferred	(30)	(435)
	1,003	408
State		
Current	664	648
Deferred	(47)	(203)
	617	445
Total income tax expense	$ 1,620	$ 853

The following is a reconciliation between expected tax expense at the statutory rate of 21% for 2020 and 2019 and actual tax expense:

(In thousands)	For the years ended December 31, 2020	2019
Computed tax expense at statutory rate	$ 1,339	$ 856
Adjustments resulting from:		
State tax, net of federal benefit	471	309
Tax-exempt interest income	(137)	(206)
Bank owned life insurance	(91)	(50)
Stock-based compensation	24	(76)
Other	14	20
Income tax expense	$ 1,620	$ 853

Significant deferred tax assets and liabilities of the Bank as of December 31, 2020 and 2019 are as follows:

(In thousands)	As of December 31, 2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,660	$ 1,695
Deferred rent	29	35
Share-based compensation cost	116	139
PPP loan origination fees	140	-
Unfunded loan commitments	118	61
Non-accrual interest	36	8
Other	17	16
Deferred tax assets	2,116	1,954
Deferred tax liabilities:		
Depreciation	(75)	(36)
Unrealized gains on AFS debt securities	(463)	(101)
Prepaid expenses	(21)	(24)
Deferred loan costs	(388)	(339)
Total deferred tax liabilities	(947)	(500)
Net deferred tax asset, included in other assets	$ 1,169	$ 1,454

The realizability of deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities, and tax planning strategies. 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 the periods in which the net operating loss carryforwards are available and the temporary differences representing net future deductibles reverse. Based upon these and other factors management has determined that it is more likely than not that the Company will realize the benefits of the deferred tax assets that exist as of December 31, 2020.

As of December 31, 2020 and 2019, 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.

As of December 31, 2020, the years 2017 – 2019 are open for federal examination and years 2016-2019 are open for state examinations.

Note 13. Leases

The Company has operating leases for a retail branch, our operation and administration center (main office) and certain equipment. On commencement date of a new lease, the Company recognizes a ROU asset, which represents the right to use an underlying asset for the lease term, and a lease liability, which represent an obligation to make lease payments arising from the lease. The ROU assets are included in other assets and lease liabilities are included in other liabilities. The Company's leases have remaining lease terms of eight months to three years, some of which include options to extend the leases for up to five years. The main office lease expires on November 30, 2022, with an option to renew for two additional five-year terms. Because we may need to expand our office space, the extension options were excluded from the calculations of the ROU asset and lease liability.

The following table presents the ROU assets and the lease liability for the years ended December 31, 2020 and 2019.

	For the years ended December 31,	
	2020	2019
ROU asset	$ 459	$ 703
Lease liabilitity	$ 557	$ 826

The following table presents operating lease costs for the years ended December 31, 2020 and 2019.

	For the years ended December 31,	
(In thousands)	2020	2019
Operating lease cost	$ 269	$ 278
	$ 269	$ 278

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

	As of December 31,	
(In thousands)	2020	2019
2020	$ -	$ 293
2021	300	300
2022	278	278
2023	-	-
2024	-	-
Thereafter	-	-
Total lease payments	578	871
Less imputed interest	(25)	(45)
Total	$ 553	$ 826

Note 14. Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit to meet the financing needs of its customers. Such commitments have been made in the normal course of business and at current prevailing market terms. The commitments, once funded, are principally to originate commercial loans and other loans secured by real estate. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments issued to potential borrowers of the Bank as of December 31, 2020 and 2019 were as follows:

	As of December 31,	
(In thousands)	2020	2019
Fixed rate commitments	$ 3,585	$ 2,657
Variable/adjustable rate commitments	73,184	56,654
Total commitments	$ 76,769	$ 59,311

Legal Proceedings

Within the normal course of business, the Company may be a party to various claims or legal proceedings. Management is not aware of any litigation that would have a material adverse effect on the consolidated financial statements. There are no proceedings pending other than routine litigation incident to the business of the Company.

Note 15. Related-Party Transactions

The Bank routinely enters into transactions with its directors and executive officers. Such transactions are made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and do not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties was $920 thousand and $1.4 million as of December 31, 2020 and 2019, respectively. During 2020 and 2019, new loans and credit line advances to such related parties amounted to $125 thousand and $25 thousand, respectively, and repayments amounted to $22 thousand and $184 thousand, respectively. Approximately $600 thousand is no longer classified as related party due to a change in composition of related parties. The aggregate amount of deposits from related parties was $61.8 million and $42.5 million as of December 31, 2020 and 2019, respectively.

The Bank engaged in certain property inspection and construction services with an entity that is affiliated with a director of the Bank. Such aggregate services amounted to fees of $33 thousand and $24 thousand for the years ended December 31, 2020 and 2019, respectively. In management's opinion, the terms of the services provided were substantially equivalent to that which would have been obtained from unaffiliated parties.

Note 16. Dividend Policy

Company

The Company has not paid a cash dividend since its inception in June 2000. Any payment of cash dividends to its shareholders would be dependent on the payment of a cash dividend from the Bank to the Company. The payment of cash dividends by the Bank to the Company is limited under federal banking law. The Company's future dividend policy is subject to the discretion of its board of directors and will depend upon a number of factors, including future earnings, financial conditions, cash needs, and general business conditions. Holders of common stock will be entitled to receive dividends as and when declared by the board of directors out of funds legally available for that purpose.

Bank

The amount of dividends that may be paid by the Bank depends upon the Bank's earnings and capital position, and is limited by New Jersey and federal law, regulations, and policies. As a state chartered bank subject to New Jersey and FDIC regulations, the Bank cannot pay any dividend if the dividend would reduce the required surplus of the Bank as defined in New Jersey statutes. As a matter of policy, the FDIC expects state banks to follow the national bank dividend limits, which allow a bank to pay dividends up to the amount of net profits of the current year plus the retained net profits from the last two years. Amounts in excess of that would require prior approval of the FDIC. In addition, the FDIC and the state of New Jersey have authority to further limit any dividends to be paid by the Bank in a specific case. No specific dividend restrictions have been imposed on the Bank at this time.

Note 17. Employee Benefits

The Bank instituted a qualified defined contribution plan ('the 401(K) Plan") for all current employees in August 2005. All eligible employees are 100% vested in any required safe harbor contributions. The Bank made safe harbor contributions in the amount of $188 thousand and $189 thousand during 2020 and 2019, respectively.

Note 18. Stock Option Plans

During 2020, the shareholders approved the 1st Colonial Bancorp, Inc. 2020 Equity Incentive Plan ("2020 Equity Plan"). The Board of Directors approved the 2020 Equity Plan for the purpose of enabling the Company to continue to recruit and retain highly qualified personnel, to provide those personnel with an incentive for productivity, and to provide those personnel with an opportunity to share in the growth and value of the Company. Accordingly, the board of directors has reserved 400,000 shares of our common stock for issuance upon the grant or exercise of awards pursuant to the 2020 Equity Plan. The Board of Directors believes that the shares authorized by the 2020 Equity Plan are needed to ensure the continued availability of equity-based compensation and that the 2020 Equity Plan will enhance the effectiveness of the Bank's equity compensation program by authorizing the award of restricted stock and the use of other stock-based compensation techniques. The exercise price of options granted under this program is required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest over five years. These options expire 10 years from the grant date. As of December 31, 2020, 101,000 options were outstanding under this plan.

The authorization of the 2020 Equity Plan terminated two other stock option programs, the 2013 Outside Director Plan and the 2013 Employee Stock Option Plan. No new options or awards will be granted under the 2013 Plans. Under the 2013 Outside Director Plan, 144,610 options remain outstanding as of December 31, 2020 for nonemployee directors. The exercise price of options granted under this program was required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest in five equal annual installments or upon retirement. These options expire 10 years from the grant date.

Under the 2013 Employee Stock Option Plan, 68,639 options remain outstanding as of December 31, 2020 for key employees. The exercise price of options granted under this program was equal to at least the fair market value of common stock as of the grant date. All options granted under this plan vest in five equal annual installments, upon retirement or a change in control of the Company. These options expire 10 years from the grant date.

Compensation expense for stock options is recognized over the requisite service period. During 2020 and 2019, we recognized $63 thousand and $82 thousand, respectively, in compensation expense for stock options. At December 31, 2020, approximately $224 thousand remained to be recognized in compensation expense over a weighted-average period of approximately four years.

We had two other stock option programs, the 2003 Outside Director Plan and the 2003 Employee Stock Option Plan. The ability to grant new options under these plans has expired.

Under the 2003 Outside Director Plan, as amended, 17,792 options remain outstanding as of December 31, 2020 for nonemployee directors. The exercise price of options granted under this program was required to be equal to at least the fair market value of common stock as of the grant date. All options granted under this plan are fully vested. These options expire 10 years from the grant date. Under the 2003 Employee Stock Option Plan, as amended, no options remain outstanding as of December 31, 2020 for key employees.

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option-pricing model. The risk-free interest rate for the expected term of the stock option awarded is based on the U.S. Treasury yield curve in effect at the time of the grant. The volatility of the Company's stock is based on a combination of historical volatility and peer data over a span of time equal to the expected life of stock option awards, which is the period of time the Company estimates that stock options granted will remain outstanding. There were no stock options granted in 2019. The simplified method averages an award's weighted average vesting period and its contractual term. The following assumptions were used to estimate the fair value of the options granted during 2020:

	2020
Weighted average risk-free interest rate	0.38%
Weighted average volatility	24.00%
Expected dividend yield	-
Weighted average expected life	6.50

A summary status of the Company's stock option plans as of December 31, 2020 and 2019, and the changes during the years then ended, is as follows:

	2020				2019	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Term (yrs)	(1) Aggregate Intrinsic Value	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	326,710	$ 6.81	5.1		430,655	$ 6.19
Granted	101,000	6.99			-	-
Exercised	(26,084)	4.29			(92,211)	4.03
Forfeited or expired	(69,585)	6.86			(11,734)	5.70
Options outstanding at the end of the year	332,041	$ 7.05	6.0	$ 425	326,710	$ 6.81
Options exercisable at the end of the year	212,239	$ 5.97	3.8	$ 379	276,656	$ 5.83
Weighted-average fair value of options granted during the year		$ 1.75				$ -

(1) The aggregate intrinsic value of a stock option in the table above (shown in thousands) represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had they exercised their options on December 31, 2020. The intrinsic value varies based on the changes in the market value in the Company's stock.

The Company issues new shares upon the exercise of stock options.

The following table provides detail for non-vested stock options under the 2020 Equity Plan and the 2013 Outside Director and Employee Stock Option Plans as of December 31, 2020:

	Options	Weighted Average Exercise Price
Non-vested options December 31, 2019	50,054	$ 8.07
Granted	101,000	6.99
Forfeited	(11,241)	8.22
Vested	(20,011)	7.55
Non-vested options December 31, 2020	119,802	$ 7.37

Note 19. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated 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.

A banking organization must hold a capital conservation buffer comprised of Common Equity Tier 1 above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. As of December 31, 2020, the Bank met all capital adequacy requirements to which it is subject and met the criteria for a well-capitalized institution.

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the following table:

	Actual		For capital adequacy purposes		For capital adequacy purposes with capital conservation buffer		To be well capitalized under prompt corrective action provision	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)								
At December 31, 2020	$ 66,191	17.538%	$ 30,193	8.00%	$ 39,628	10.500%	$ 37,741	10.00%
At December 31, 2019	$ 51,758	14.443%	$ 28,668	8.00%	$ 37,627	10.500%	$ 35,835	10.00%
Tier 1 capital (to risk-weighted assets)								
At December 31, 2020	$ 61,462	16.285%	$ 22,645	6.00%	$ 32,080	8.500%	$ 30,193	8.00%
At December 31, 2019	$ 47,252	13.186%	$ 21,501	6.00%	$ 30,460	8.500%	$ 28,668	8.00%
Tier 1 capital (to average assets, leverage)								
At December 31, 2020	$ 61,462	9.601%	$ 25,607	4.00%	$ 25,607	4.000%	$ 32,009	5.00%
At December 31, 2019	$ 47,252	8.249%	$ 22,913	4.00%	$ 22,913	4.000%	$ 28,641	5.00%
Common equity Tier 1 (to risk-weighted assets)								
At December 31, 2020	$ 61,462	16.285%	$ 16,984	4.50%	$ 26,419	7.000%	$ 24,532	6.50%
At December 31, 2019	$ 47,252	13.186%	$ 16,126	4.50%	$ 25,085	7.000%	$ 23,293	6.50%

Note 20. Parent Company Financial Information

A summary of the statements of financial condition as of December 31, 2020 and 2019 is as follows:

(In thousands)	December 31, 2020	December 31, 2019
Assets		
Cash in subsidiary	$ 1,599	$ 133
Investment in subsidiary	62,568	47,510
Deferred tax asset	109	138
Other assets	85	129
Total assets	$ 64,361	$ 47,910
Liabilities and Shareholders' Equity		
Subordinated debt, net of issuance costs	$ 10,404	$ -
Accrued interest payable	263	-
Other liabilities	8	4
Shareholders' equity	53,686	47,906
Total liabilities and shareholders' equity	$ 64,361	$ 47,910

A summary of the statements of operations for the years ended December 31, 2020 and 2019 is as follows:

(In thousands)	2020	2019
Equity income from subsidiary	$ 5,210	$ 3,350
Interest income	-	-
Total income	5,210	3,350
Other expenses:		
Interest on subordinated debt	276	-
Other operating expenses	110	162
Total other expenses	386	162
Income before income tax expense (benefit)	4,824	3,188
Income tax expense (benefit)	69	(36)
Net income	$ 4,755	$ 3,224

A summary of the statements of cash flows for the years ended December 31, 2020 and 2019 is as follows:

(In thousands)	2020	2019
Cash flows from operating activities:		
Net income	$ 4,755	$ 3,224
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in income from subsidiary	(5,210)	(3,350)
Stock-based compensation expense	63	82
Decrease deferred income tax benefit	29	8
Amortization of issuance costs on long-term debt	12	
Decrease (increase) in other assets	44	(44)
Increase (decrease) in other liabilities	267	(67)
Total adjustments	(4,795)	(3,371)
Net cash used in operating activities	(40)	(147)
Cash flows from investing activities:		
Investment in subsidiary	-	(350)
Net cash used in investing activities	-	(350)
Cash flows from financing activities:		
Cost of processing stock dividend	(2)	(3)
Proceeds from long tern borrowings	10,392	
Increase in investment in subsidiary	(9,000)	-
Proceeds from sale of stock	116	373
Net cash provided by financing activities	1,506	370
Net increase (decrease) in cash and cash equivalents	1,466	(127)
Cash and cash equivalents at beginning of year	133	260
Cash and cash equivalents at end of year	$ 1,599	$ 133
Cash paid during the year for:		
Interest	$ 3,991	$ 5,434
Income taxes paid	1,368	1,021
Supplemental disclosures:		
Net change in unrealized gains on securities available for sale, net of taxes of $362 and $204 for 2020 and 2019, respectively	$ 848	$ 534

Note 21. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after that date and warrant disclosure. Management has reviewed events occurring through the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure except as noted below:

On January 25, 2021, the Company announced that it has adopted a stock repurchase program, effective February 1, 2021. Under the stock repurchase program, management is authorized to repurchase up to 3% of the Company's outstanding shares of common stock, with a total cost not to exceed $1.4 million.

On March 29, 2021, the Company opened its first retail location in Limerick, Pennsylvania.

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1st Colonial Bancorp, Inc.

Administrative Office	**Collingswood Branch**	**Westville Branch**	**Limerick Branch**	**Haddonfield Loan Production Office**
210 Lake Drive East Suite 300 Cherry Hill, NJ 08002 (856) 858-1100	1040 Haddon Avenue Collingswood, NJ 08108 (856) 858-8604	321 Broadway Westville, NJ 08093 (856) 456-6544	440 Linfield Trappe Road Limerick, PA 19456 (610) 226-3000	205 N Haddon Avenue Haddonfield, NJ 08003 (856) 607-2004

Stock Listing

1st Colonial's Common Stock is traded under the Symbol "FCOB"

Board of Directors

Linda M. Rohrer, Chairman
Curt Byerley
Thomas A. Clark, III, Esquire
John J. Donnelly, IV
Eduardo F. Enriquez, M. D.
Michael C. Haydinger
Harvey Johnson, Esquire
Harrison Melstein
Stanley H. Molotsky

Letitia G. Colombi,
Director Emeritus

Executive Officers

Robert B. White, President and Chief Executive Officer
Frank J. Monaghan, Executive Vice President and Chief Operating Officer
Mary Kay Shea, Executive Vice President and Chief Financial Officer

Senior Management 1st Colonial Community Bank

Gino Brown, SVP Residential Mortgage Lending
Michael Cosden, SVP Credit Administration
Matthew McGonigal, SVP Director of Digital Experience and Operations
Randolph D. Wolfe, SVP Director Commercial and Retail Banking

Auditors

KPMG LLP
1601 Market Street
Philadelphia, Pennsylvania 19103

Counsel

Stevens & Lee
A PA Professional Corporation
100 Lenox Drive, Suite 200
Lawrenceville, New Jersey 08648

Registrar and Transfer Agent

Philadelphia Stock Transfer, Inc.
2320 Haverford Rd.
Suite 230
Ardmore, PA 19003
Telephone (866) 223-0448

1st Colonial Bancorp, Inc.

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