ABB

2022 Annual Shareholder Report

Dear Shareholders,

The books are closed on American Business Bank's 24th year of doing business— it is hard to believe we will celebrate 25 years of banking Southern California in 2023. So much has changed over the evolving landscape of the last two and a half decades. In my 40 years of banking, I have personally witnessed the great recession, the .com crash, a pandemic, and a handful of banking crises. Through it all, and by design, ABB has succeeded and persevered. Our ability to do so is rooted in two things— our resolute discipline to manage our Bank prudently and conservatively, and being a reflection of our customers.

Business banking was always intended to be predictable and candidly somewhat boring. Our business model has never been based on homeruns or wild successes, but incremental, planned growth. Sticking to our knitting protects our customers' deposits and keeps ABB as their strong, viable partner. We have been rewarded by choosing the right clients with which to support, and our real, honest, genuine relationships with them have carried their businesses and ours forward throughout whatever turmoil the markets send our way. These relationships are the heartbeat of ABB and are unprecedented in our industry.

Your Bank had a tremendous 2022. Our record net income was up 24% at $48.6 million, compared to $39.2 million at year end 2021. We grew core loan totals by 26% or $496 million over the previous year, noting 70% of those loans were granted to existing clients, and 30% were to new relationships joining the Bank last year. Deposits decreased 6% or $207 million for the year which was in large part due to the expected exit of lingering PPP funds. We plan and expect for deposits to swing upward over time, as they typically do for us. Our balance sheet remains robust, and our loan portfolio is pristine with no past due loans as of December 31, 2022. ABB's liquidity is incredibly strong, and our clients' companies generate excellent cash flow. Our borrowing capacity from the Feds further enhances our liquidity with access to over $1.3 billion as of March 24, 2023.

Our outlook remains optimistic for 2023 as our clients are each poised to continue performing well in spite of the headwinds facing us, amidst the continued threat of a looming recession. Mitigating fraud has become part of the daily rhythm in our world and we will invest additional funds and staff hours in ensuring our clients are as safe as possible.

At ABB we will focus on our controllables, and further developing our best in class employees. Expanded adoption of technology will keep us nimble and efficient, but never detour our focus on the ever most important factor of all of our businesses— the people.

I would like to extend my unending thanks to long standing shareholders, our loyal clients— without you we are nothing. Our fantastic staff have displayed undying work ethic and commitment to our strong relationships with our customers. Thank you all for being part of our Bank, and for allowing us to be a small part of your businesses.

In Your Service,
Leon Blankstein,
President, Chief Executive Officer, Director

AMERICAN BUSINESS BANK

Financial Statements and Report of Independent Auditor

December 31, 2022 and 2021

American Business Bank

Contents

	Page
Independent Auditor's Report	3
Financial Statements	
Balance Sheets	5
Statements of Income	6
Statements of Comprehensive Income	7
Statements of Changes in Shareholders' Equity	8
Statements of Cash Flows	9
Notes to Financial Statements	11

RSM US LLP

Independent Auditor's Report

Board of Directors
American Business Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of American Business Bank (the Bank), which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

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

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Bank's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 30, 2023, expressed an unmodified opinion on the effectiveness of the Bank's internal control over financial reporting.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Los Angeles, California
March 30, 2023

American Business Bank

BALANCE SHEETS

As of December 31,

ASSETS		2022		2021
Cash and due from banks	$	34,643,582	$	33,246,291
Interest earning deposits in other financial institutions		1,931,245		195,623,950
Cash and cash equivalents		36,574,827		228,870,241
Securities available-for-sale, at fair value		679,348,675		1,238,486,678
Securities held-to-maturity, at amortized cost		584,743,804		298,651,185
Federal Home Loan Bank stock, at cost		15,000,000		11,778,500
Loans receivable		2,440,201,578		2,077,782,190
Allowance for loan losses		(29,635,288)		(25,061,555)
Loans receivable, net		2,410,566,290		2,052,720,635
Furniture, equipment and leasehold improvements, net		5,604,676		6,579,915
Bank/corporate owned life insurance		27,668,472		28,850,883
Deferred income tax assets, net		51,683,648		17,375,796
Accrued interest receivable and other assets		29,571,118		28,961,893
Total assets	$	3,840,761,510	$	3,912,275,726
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Non-interest bearing demand deposits	$	1,808,570,166	$	1,934,443,799
Interest bearing transaction accounts		314,747,405		287,223,678
Money market and savings deposits		1,225,619,495		1,337,034,949
Certificates of deposit		41,857,637		39,444,948
Total deposits		3,390,794,703		3,598,147,374
Federal Home Loan Bank advances		155,000,000		-
Other borrowings		6,500,000		-
Accrued interest payable and other liabilities		34,017,033		35,574,321
Total liabilities		3,586,311,736		3,633,721,695
Commitments and contingencies				
Shareholders' equity				
Common stock, no par value; authorized, 15,000,000 shares; issued and outstanding, 8,963,108 and 8,832,797 shares at December 31, 2022 and 2021, respectively		205,558,476		202,199,318
Accumulated other comprehensive loss		(81,188,477)		(5,165,847)
Retained earnings		130,079,775		81,520,560
Total shareholders' equity		254,449,774		278,554,031
Total liabilities and shareholders' equity	$	3,840,761,510	$	3,912,275,726

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF INCOME

For the years ended December 31,

	2022	2021
Interest income		
Interest and fees on loans	$ 98,995,367	$ 86,800,400
Investment securities	27,778,310	21,616,925
Interest earning deposits in other financial institutions	975,271	462,102
Total interest income	127,748,948	108,879,427
Interest expense		
Interest bearing transaction accounts	217,383	151,907
Money market and savings deposits	2,158,034	1,620,551
Certificates of deposits	50,505	46,892
Federal Home Loan Bank advances and other borrowings	267,121	7
Total interest expense	2,693,043	1,819,357
Net interest income	125,055,905	107,060,070
Provision for loan losses	4,515,000	1,953,000
Net interest income after provision for loan losses	120,540,905	105,107,070
Noninterest income		
Deposit fees	4,037,960	3,314,024
International fees	1,360,850	1,210,084
Loss on sale of investment securities, net	(75,174)	(32,812)
Bank/corporate owned life insurance income (loss)	(387,374)	1,112,810
Other non-interest income	1,787,901	921,424
Total noninterest income	6,724,163	6,525,530
Noninterest expense		
Salaries and employee benefits	41,688,912	39,867,244
Occupancy and equipment	4,674,563	4,589,090
Professional services	7,171,809	6,042,829
Promotion expenses	1,973,660	1,734,146
Other expenses	5,234,053	6,582,734
Total noninterest expense	60,742,997	58,816,043
Income before income taxes	66,522,071	52,816,557
Income tax expense	17,962,856	13,654,024
NET INCOME	$ 48,559,215	$ 39,162,533
Earnings per share - basic	$ 5.34	$ 4.39
Earnings per share - diluted	$ 5.28	$ 4.33
Weighted average shares - basic	9,095,159	8,918,938
Weighted average shares - diluted	9,194,381	9,048,355

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31,

	2022	2021
Net Income	$ 48,559,215	$ 39,162,533
Other Comprehensive Income:		
Unrealized losses on securities:		
Available-for-sale:		
Net change in unrealized losses	(105,285,089)	(16,317,364)
Reclassification of losses to net income	(75,174)	(32,812)
Net unrealized losses on securities	(105,360,263)	(16,350,176)
Tax effect	31,148,287	4,833,700
Net unrealized losses on securities, net of tax	(74,211,976)	(11,516,476)
Held-to-maturity:		
Net change in unamortized unrealized loss on securities available-for-sale transferred to held-to-maturity	(2,570,622)	472,419
Tax effect	759,968	(139,664)
Net unrealized gains (losses) on securities, net of tax	(1,810,654)	332,755
Total other comprehensive loss	(76,022,630)	(11,183,721)
Comprehensive income (loss)	$ (27,463,415)	$ 27,978,812

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2022 and 2021

	Shares outstanding	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2020	7,942,368	$ 166,263,030	$ 75,557,280	$ 6,017,874	$ 247,838,184
Exercise of stock options	32,706	509,489	-	-	509,489
Restricted stock vested	62,302	-	-	-	-
Repurchase of restricted stock at vesting	(7,274)	(269,559)	-	-	(269,559)
Distribution of restricted stock from DCP plan (1)	2,889	-	-	-	-
10% Stock Dividend	799,806	33,195,601	(33,199,253)	-	(3,652)
Stock-based compensation	-	2,500,757	-	-	2,500,757
Net income for the year	-	-	39,162,533	-	39,162,533
Other comprehensive income (loss)	-	-	-	(11,183,721)	(11,183,721)
Balance at December 31, 2021	8,832,797	$ 202,199,318	$ 81,520,560	$ (5,165,847)	$ 278,554,031
Exercise of stock options	65,717	1,030,147	-	-	1,030,147
Restricted stock vested	69,993	-	-	-	-
Repurchase of restricted stock at vesting	(11,026)	(456,647)	-	-	(456,647)
Distribution of restricted stock from DCP plan [1]	5,627	-	-	-	-
Stock-based compensation	-	2,785,658	-	-	2,785,658
Net income for the year	-	-	48,559,215	-	48,559,215
Other comprehensive income (loss)	-	-	-	(76,022,630)	(76,022,630)
Balance at December 31, 2022	8,963,108	$ 205,558,476	$ 130,079,775	$ (81,188,477)	$ 254,449,774

(1) DCP: Deferred Compensation Plan - see Note L

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF CASH FLOWS

For the years ended December 31,

		2022		2021
Net income	$	48,559,215	$	39,162,533
Adjustments to reconcile net income to net cash provided by operating activities				
Provision for loan losses		4,515,000		1,953,000
(Recapture of) provision for unfunded commitments		(4,000)		(425,000)
Depreciation and amortization of furniture, equipment and leasehold improvements		1,772,815		1,773,819
Net amortization of premium on securities		11,801,732		14,390,788
Amortization of operating lease right-of-use assets		1,526,676		1,394,357
Stock-based compensation expense		2,785,658		2,500,757
Bank/corporate owned life insurance (income) loss		387,374		(1,112,810)
Loss on sales of investment securities, net		75,174		32,812
Deferred income tax benefit		(2,399,597)		(2,066,188)
Deferred compensation expense		-		139,559
Post-retirement health benefits amortization		(6,561)		(55,165)
Changes in assets and liabilities:				
Accrued interest receivable and other assets		(1,005,088)		1,410,800
Accrued interest payable and other liabilities		(2,677,540)		793,866
Net cash provided by operating activities		65,330,858		59,893,128
Purchases of Federal Home Loan Bank stock		(3,221,500)		(914,300)
Purchases of securities available-for-sale		(15,932,524)		(621,302,367)
Proceeds from sales of securities available-for-sale		24,016,140		6,185,890
Proceeds from maturities, paydowns and calls of securities available-for-sale		124,150,719		214,407,970
Purchases of securities held-to-maturity		-		(87,156,404)
Proceeds from calls of securities held-to-maturity		21,003,258		2,920,000
Net increase in loans receivable		(362,360,655)		(16,694,222)
Proceeds from bank/corporate owned life insurance		795,037		-
Purchases of furniture, equipment and leasehold improvements		(797,576)		(496,242)
Net cash used in investing activities		(212,347,101)		(503,049,675)

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended December 31,

	2022	2021
Cash flows from financing activities:		
Net increase (decrease) in deposits	$ (207,352,671)	$ 425,737,394
Net proceeds from Federal Home Loan Bank advances	155,000,000	-
Net proceeds from Other borrowings	6,500,000	-
Cash paid in lieu of fractional shares	-	(3,652)
Repurchase of restricted stock at vesting	(456,647)	(269,559)
Proceeds from exercise of stock options	1,030,147	509,489
Net cash provided by (used in) financing activities	(45,279,171)	425,973,672
Net decrease in cash and cash equivalents	(192,295,414)	(17,182,875)
Cash and cash equivalents at beginning of year	228,870,241	246,053,116
Cash and cash equivalents at end of year	$ 36,574,827	$ 228,870,241
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 2,614,205	$ 1,824,185
Income taxes	21,500,000	14,065,000
Supplemental noncash disclosures:		
Unrealized gains (losses) on investment securities, net of tax	$ (76,022,630)	$ (11,183,721)
Transfer of securities from available-for-sale to held-to-maturity	312,949,481	73,053,648
Lease liabilities arising from obtaining right-of-use assets	1,130,813	1,107,543

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

American Business Bank (the "Bank"), which commenced operations on October 1, 1998, is a California-chartered bank primarily engaged in the business of serving the banking needs of small and medium-sized firms, non-profits, along with the personal needs of business executives and professionals in Southern California. Since the Bank's emphasis is on business banking, it does not actively solicit consumer business from the general public. The Bank's revenues are derived principally from interest on loans and investments, and other fees. The operations and net interest income of the Bank are affected by general economic conditions and by the monetary and fiscal policies of the federal government. Lending activities are affected by the demand for business loans, commercial mortgage needs and other types of financing which is, in turn, affected primarily by interest rates and other general economic conditions. Deposit flows and cost of funds are influenced by interest rates on competing investments and by general market interest rates. The ability of the Bank's customers to honor their loan agreements is dependent, in part, upon the general economy of the Bank's market area and, to a lesser degree, upon the health of the local real estate market.

The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and conform to general practices within the banking industry. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows.

On July 22, 2021, the Bank paid a 10% stock dividend on its common stock to shareholders of record as of June 23, 2021. The Bank paid $3,652 of cash in lieu of fractional shares. All per share amounts and numbers of shares outstanding in this report have been retroactively applied for the stock dividend.

1. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, investment securities valuation and impairment, and deferred income taxes. The Bank has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest earning deposits in other financial institutions, all of which mature within ninety days.

3. Interest Earning Deposits in Other Financial Institutions

Interest earning deposits in other financial institutions represent short term interest earning deposits, which include money market deposit accounts with other financial institutions, and interest earning deposits with the Federal Reserve. These deposits can generally provide the Bank with immediate liquidity and generally can be liquidated the same day as is the case with the Federal Reserve and within seven days on money market deposit accounts with other financial institutions.

4. Investment Securities

Debt securities are classified based on management's intention on the date of purchase. Debt securities that management has the positive intent and ability to hold to maturity are classified as held–to-maturity and recorded at amortized cost. Securities classified as trading are recorded at fair value with changes in fair value recorded in earnings. Securities not classified as held-to-maturity or trading, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax. Interest and dividends are included in interest income. Premiums or discounts on securities are amortized or accreted into income using the interest method over the expected lives of the individual securities. Realized gains and losses on sales of securities are recorded using the specific identification method.

Periodically, management may reassess the appropriateness of the classification of the Bank's investments in debt securities. Transfers of securities between categories of investments are accounted for at fair value as of the transfer date, and the accounting treatment of the unrealized gains and losses and the related income tax effects are determined by the category into which the security is transferred. For transfers of securities from available-for-sale to held-to-maturity, the unrealized gain or loss becomes part of the amortized cost basis at the date of transfer and is subsequently amortized over the expected life of the security as a yield adjustment. The unrealized gain or loss at the date of transfer remains in accumulated other comprehensive income, but is amortized over the expected life of the security as a yield adjustment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Bank regularly performs an assessment to determine whether a decline in fair value below amortized cost is other-than-temporary. Amortized cost includes adjustments made to the cost of the security for accretion, amortization, collection of cash and previous other-than-temporary impairment recognized in earnings.

Other-than-temporary impairment exists when it is probable that the Bank will be unable to recover the entire amortized cost basis of the security. The classification of other-than-temporary impairment depends on whether the Bank intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of its cost basis, and on the nature of the impairment. If the Bank intends to sell a security or it is more likely than not it will be required to sell a security prior to recovery of its cost basis, the entire amount of impairment is recognized in earnings. If the Bank does not intend to sell the security or it is not more likely than not it will be required to sell the security prior to recovery of its cost basis, the credit loss component of impairment is recognized in earnings and impairment associated with non-credit factors, such as market liquidity, is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other-than-temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

5. Federal Home Loan Bank Stock

The Bank's investment in the Federal Home Loan Bank stock represents an equity interest in the Federal Home Loan Bank of San Francisco. The investment is recorded at cost and periodically evaluated for impairment based on ultimate recovery of par value. The Bank evaluated the carrying value of our FHLB stock investment as of December 31, 2022 and 2021 and determined it was not impaired. Dividends are reported as interest income.

6. Loans Receivable

Loans receivable are stated at unpaid principal balance adjusted for deferred fees and costs on originated loans and the allowance for loan losses.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on non-accrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectable. Generally,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of loans receivable is determined based on contractual due dates for loan payments.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Income from impaired loans is recognized on an accrual basis unless the loan is on nonaccrual status.

Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

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

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

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and/or related regulatory guidance, the Bank may elect not to apply TDR classification to COVID-19 related loan modifications that met all of the criteria as stipulated in the CARES Act or related regulatory guidance. Concessions granted under a troubled debt restructuring generally involve a

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

reduction in interest rate or extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are initially designated as impaired.

Nonrefundable fees and direct costs associated with the origination of loans are deferred and netted against outstanding loan balances. The net deferred loan fees and costs are recognized in interest income as an adjustment to yield over the loan term using a method that approximates effective yield.

Concentration of Credit Risk: The Bank has a concentration in commercial real estate loans generally collateralized by first deeds of trust on specific commercial properties. Most of the Bank's business activity is with customers located within Southern California. Therefore, the Bank's exposure to credit risk is significantly affected by changes in the economy in the Southern California region.

7. Allowance for Loan Losses

The allowance for loan losses (allowance) is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of the loan balance becomes unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance calculation methodology includes segregation of the total loan portfolio into segments. The Bank's loan portfolio is comprised of the following segments: construction, commercial real estate, residential real estate, commercial, and other loans.

The allowance consists of a specific and general component. The specific component relates to loans that are classified as impaired. For loans classified as impaired, an allowance is established when the discounted cash flows (or observable market price or collateral value) of the impaired loan is lower than the carrying value of that loan. The general component covers loans by loan portfolio segments. These loan portfolio segments are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. The Bank utilizes a third party vendor to calculate the quantitative portion of the general allowance based on a methodology that uses probability of default ("PD") and loss given default ("LGD") factors

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

to arrive at a loss rate for each risk grade and for each loan portfolio segment. The PD and LGD factors are based on average industry experience from the most recent 20 quarters. Loss rates are then applied to outstanding loan balances to arrive at the quantitative portion of the allowance. The allowance is further adjusted for qualitative factors and they are:

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

8. Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded. A separate allowance in other liabilities has been established using an estimated utilization percentage and loss rate from the allowance for loan losses methodology that is applied to unfunded commitments.

9. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation on furniture and equipment is computed on a straight-line method with useful lives ranging from 2.5 to 7 years. Leasehold improvements are capitalized and amortized on the straight-line method over the estimated useful life of the improvement or the term of lease, whichever is shorter.

10. Bank/Corporate Owned Life Insurance

The Bank invests in Bank-Owned Life Insurance ("BOLI") and Corporate-Owned Life Insurance ("COLI"). BOLI and COLI involve the purchasing of life insurance by the Bank on a group of senior officers of the Bank. The Bank is the owner and beneficiary of these policies. BOLI and COLI are recorded as an asset at cash surrender value. Increases and decreases in cash value of these policies and insurance proceeds received, net of administrative charges, are recorded in

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

noninterest income and are not subject to income tax, as long as the policies are held for the lives of the participants.

11. Derivatives Not Designated as Hedging Instruments

The Bank is a party to interest rate derivatives that are not designated as hedging instruments. All derivative instruments are recognized on the balance sheet at their current fair value. These derivatives relate to interest rate swaps that the Bank enters into with customers to allow customers to convert variable rate loans to a fixed rate. The Bank pays interest to the customer at a floating rate on a notional amount and receives interest from the customer at a fixed rate for the same notional amount. At the same time the interest rate swap is entered into with the customer, an offsetting interest rate swap is entered into with another financial institution. The Bank pays the other financial institution interest at the same fixed rate on the same notional amount as the swap entered into with the customer, and receives interest from the financial institution for the same floating rate on the same notional amount. The changes in the fair value of the swaps primarily offset each other and therefore should not have a significant impact on the Bank's results of operations. The notional value at December 31, 2022 and 2021 was $928,588 and $963,054, respectively.

Under the interest rate swap contracts, the Bank may be required to pledge and maintain collateral for the credit support based on a certain threshold. At December 31, 2022 and 2021, the Bank was required to pledge cash collateral of $0 and $108,782, respectively.

12. Income Taxes

The Bank accounts for income taxes under the asset and liability method. 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 and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using currently 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 Bank believes that it is more likely than not that the deferred income tax assets as of December 31, 2022 will be utilized. In arriving at this conclusion the Bank is relying on projection of future pretax income. The Bank evaluates all positive and negative evidence when projecting future taxable income from operations and gives more weight to evidence that is objectively verifiable. Management believes that it is more likely than not that the Bank will exceed these requirements.

The Bank recognizes and measures uncertain tax positions using a two-step approach. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

settlement. The Bank considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments. As of December 31, 2022, the Bank has identified no material uncertain tax position for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within 12 months.

Further, the Bank's policy is to record interest and penalties from underpayment of taxes when it is reasonably probable that the amounts will be incurred. The Bank is subject to federal income tax examinations for years beginning in 2019 and thereafter and California income tax examinations for years beginning in 2018 and thereafter.

13. Stock-Based Compensation

The Bank measures the cost of employee and director services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period, on a straight-line basis. The Bank determines the grant-date fair value of employee share options granted using the Black-Scholes option-pricing model adjusted for the unique characteristics of these options. The Bank recognizes forfeitures as they occur.

14. Earnings Per Share

Basic earnings per share ("EPS") represent the net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential dilutive common shares that may be issued by the Bank relate to outstanding stock options and restricted stock, and are determined using the treasury stock method. At December 31, 2022 and 2021, options to purchase 0 shares and 550 shares of common stock were outstanding, respectively, but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

	2022			2021		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS						
Net income available to common shareholders	$ 48,559,215	9,095,159	$ 5.34	$ 39,162,533	8,918,938	$ 4.39
Effect of dilutive shares	-	99,222	(0.06)	-	129,417	(0.06)
Diluted EPS	$ 48,559,215	9,194,381	$ 5.28	$ 39,162,533	9,048,355	$ 4.33

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

15. Reclassification

Certain amounts in the prior year's financial statements were reclassified to conform to the current year presentation with no effect on previously reported net income or shareholders' equity.

16. Recent Accounting Pronouncements

New Accounting Pronouncements Adopted in 2022:

In March 2020, the FASB issued guidance within ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, in response to the scheduled discontinuation of LIBOR. Since the issuance of this guidance, cessation of U.S. dollar LIBOR has been extended to June 30, 2023. Accordingly, in December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which deferred the sunset date of ASC Topic 848 from December 31, 2022, to December 31, 2024. The amendments in this update provide optional guidance designed to provide relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by reference rate reform. The adoption of this standard did not have a material impact on the Bank's financial statements.

Accounting Standards Issued but not yet Adopted:

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new current expected credit loss ("CECL") impairment model applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loan receivables, available-for-sale and held-to-maturity debt securities, net investments in leases and off-balance sheet credit exposures. In addition, the amendments in this update require credit losses be presented as an allowance rather than as a write-down on available-for-sale debt securities. In November 2019, the FASB issued ASU 2019-10, Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates. ASU 2019-10 defers the effective date of the new credit losses standard for all entities except SEC filers that are not smaller reporting companies to fiscal years beginning after December 15, 2022, including interim periods in those fiscal years, with early adoption permitted on January 1, 2019. The Bank is a public business entity that does not meet the definition of an SEC filer, and ASU 2016-13 is effective for the Bank on January 1, 2023. The guidance should be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. The Bank's implementation efforts included, but were not limited to, identifying key interpretive issues, assessing its processes, identifying the system requirements against the new guidance to determine what modifications may be required, evaluating modeling methodologies for its portfolio segments and assessing potential macroeconomic factors that will

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

be used to determine the reasonable and supportable forecast period. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. We currently expect the adoption will result in a decrease to the allowance for loan losses balance.

In March 2022, the FASB issued ASU 2022-02, which eliminates the troubled debt restructuring (TDR) accounting model for creditors that have adopted Topic 326. Due to the removal of the TDR accounting model, all loan modifications will now be accounted for under the general loan modification guidance in Subtopic 310-20. In addition, on a prospective basis, entities will be subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. The provisions of ASU 2022-02 will take effect when an entity adopts Topic 326. This standard is not expected to have a material impact on the Bank's financial statement and related disclosures upon adoption.

NOTE B - INVESTMENT SECURITIES

The amortized cost and fair value of the Bank's investment securities as of December 31 are as follows:

	2022			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities available-for-sale				
U.S. SBA loan pool securities	$ 125,245,435	$ 119,279	$ (2,200,973)	$ 123,163,741
Residential mortgage-backed securities	501,456,347	-	(90,868,451)	410,587,896
Commercial mortgage-backed securities	31,667,181	-	(2,879,405)	28,787,776
Corporate bonds	16,250,000	-	(1,229,206)	15,020,794
Municipal securities	114,864,106	-	(13,075,638)	101,788,468
Total securities available-for-sale	$ 789,483,069	$ 119,279	$ (110,253,673)	$ 679,348,675

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities held-to-maturity				
Residential mortgage-backed securities	$ 169,246,042	$ -	$ (32,232,691)	$ 137,013,351
Commercial mortgage-backed securities	21,278,775	-	(3,650,164)	17,628,611
Municipal securities	394,218,987	34,974	(78,895,035)	315,358,926
Total securities held-to-maturity	$ 584,743,804	$ 34,974	$ (114,777,890)	$ 470,000,888

	2021			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities available-for-sale				
U.S. SBA loan pool securities	$ 187,114,517	$ 203,761	$ (2,147,966)	$ 185,170,312
Residential mortgage-backed securities	736,188,357	1,194,158	(10,645,674)	726,736,841
Commercial mortgage-backed securities	80,930,888	2,076,406	(1,248,070)	81,759,224
Corporate bonds	12,750,000	202,779	(49,422)	12,903,357
Municipal securities	226,277,047	6,350,698	(710,801)	231,916,944
Total securities available-for-sale	$ 1,243,260,809	$ 10,027,802	$ (14,801,933)	$ 1,238,486,678

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities held-to-maturity				
Municipal securities	298,651,185	8,582,181	(700,848)	306,532,518
Total securities held-to-maturity	$ 298,651,185	$ 8,582,181	$ (700,848)	$ 306,532,518

NOTE B - INVESTMENT SECURITIES – Continued

On January 1, 2022 the Bank reassessed its classification of certain investments and transferred $98,962,073 of municipal securities and $210,273,867 of residential mortgage-backed securities, at fair value, from available-for-sale to held-to-maturity. The related unrealized loss of $3,713,542 at the date of transfer included in accumulated other comprehensive income (AOCI) remained in AOCI, to be amortized out of AOCI with an offsetting entry to interest income as a yield adjustment through earnings. No gain or loss was recorded at the time of transfer.

On May 1, 2021 the Bank reassessed its classification of certain investments and transferred $72,951,430 of municipal securities, at fair value, from available-for-sale to held-to-maturity. The related unrealized loss of $102,218 at the date of transfer included in accumulated other comprehensive income (AOCI) remained in AOCI, to be amortized out of AOCI with an offsetting entry to interest income as a yield adjustment through earnings. No gain or loss was recorded at the time of transfer.

The amortized cost of securities transferred from available-for-sale to held-to-maturity was $441,742,575 and $154,957,499 at December 31, 2022 and 2021, respectively. The remaining unamortized unrealized loss was $5,130,549 and $2,599,927 at December 31, 2022 and 2021, respectively.

The total gains and losses from sales of securities for each of the years ended December 31 are shown below:

	2022	2021
Gains from sales of securities	$ 123,164	$ 40,321
Losses from sales of securities	(198,338)	(73,133)
Net losses on sales of securities	$ (75,174)	$ (32,812)

The amortized cost and estimated fair value of investment securities at December 31, 2022, by expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Due within one year	$ 74,262,401	$ 66,368,472	$ 12,972,335	$ 10,587,694
Due in one to five years	223,461,988	196,514,449	60,624,823	50,936,723
Due in five to ten years	186,374,516	159,425,572	69,970,628	57,405,585
Due after ten years	305,384,164	257,040,182	441,176,018	351,070,886
Total	$ 789,483,069	$ 679,348,675	$ 584,743,804	$ 470,000,888

NOTE B - INVESTMENT SECURITIES – Continued

The total carrying value of securities pledged to secure borrowings, advances and for other purposes as required or permitted by law amount to $185,454,441 and $184,539,841 at December 31, 2022 and 2021, respectively.

The line of credit for overnight borrowings with the Federal Reserve Bank is collateralized with securities in the amount of $89,767,474 and $65,157,548 at December 31, 2022 and 2021, respectively.

Pursuant to collateral agreements with the Federal Home Loan Bank ("FHLB"), advances are collateralized by certain investment securities. The carrying value of the investment securities pledged were $35,663,878 and $59,027,909 at December 31, 2022 and 2021, respectively.

The Bank regularly monitors investments for significant declines in fair value. The Bank has determined that the decline in fair value of these investments below their amortized costs, as set forth in the table below, are temporary based on the following: (i) those declines are primarily due to interest rate changes and not due to a deterioration in the creditworthiness of the issuers of those investments securities, (ii) the Bank does not have the intent to sell these investment securities, and (iii) it is more likely than not the Bank will not have to sell these investment securities before recovery of their cost basis. The Bank determines other-than-temporary impairment based on the information available at the time of the assessment, with particular focus on the severity and duration of specific security impairments, but new information or economic developments in the future could result in recognition of an other-than-temporary impairment loss. As of December 31, 2022, the gross unrealized losses presented in the following tables were primarily attributable to the level of market interest rates relative to the types of securities and pricing changes caused by shifting supply and demand dynamics. The Bank did not identify any securities that were deemed to be other-than-temporarily impaired as of December 31, 2022 and 2021.

NOTE B - INVESTMENT SECURITIES – Continued

The following securities have been in a continuous unrealized loss position for less than and greater than twelve months at December 31:

	2022					
	Less than twelve months			Greater than twelve months		
	Number of Securities	Fair value	Unrealized loss	Number of Securities	Fair value	Unrealized loss
Securities available-for-sale						
U.S. SBA loan pool securities	6	$ 16,120,122	$ (354,615)	61	$ 83,524,977	$ (1,846,358)
Residential mortgage-backed securities	37	36,947,074	(4,289,118)	121	373,640,822	(86,579,333)
Commercial mortgage-backed securities	16	27,326,700	(2,422,492)	1	1,461,076	(456,913)
Corporate securities	5	7,695,120	(554,880)	4	7,325,674	(674,326)
Municipal securities	79	80,251,972	(9,171,085)	32	21,536,496	(3,904,553)
Total securities available-for-sale	143	$ 168,340,988	$ (16,792,190)	219	$ 487,489,045	$ (93,461,483)
Securities held-to-maturity						
Residential mortgage-backed securities	2	$ 5,682,877	$ (1,027,536)	40	$ 131,330,474	$ (31,205,155)
Commercial mortgage-backed securities	-	-	-	7	17,628,611	(3,650,164)
Municipal securities	60	105,812,304	(10,868,839)	235	199,636,932	(68,026,196)
Total securities held-to-maturity	62	111,495,181	(11,896,375)	282	348,596,017	(102,881,515)
Total temporary impaired securities	205	$ 279,836,169	$ (28,688,565)	501	$ 836,085,062	$ (196,342,998)

	2021					
	Less than twelve months			Greater than twelve months		
	Number of Securities	Fair value	Unrealized loss	Number of Securities	Fair value	Unrealized loss
Securities available-for-sale						
U.S. SBA loan pool securities	3	$ 7,778,021	$ (7,790)	70	$ 150,532,359	$ (2,140,176)
Residential mortgage-backed securities	127	562,359,159	(7,957,325)	17	68,819,454	(2,688,349)
Commercial mortgage-backed securities	5	15,846,270	(253,079)	7	27,690,159	(994,991)
Corporate securities	2	3,950,578	(49,422)	-	-	-
Municipal securities	43	42,848,071	(583,479)	5	4,459,612	(127,322)
Total securities available-for-sale	180	632,782,099	(8,851,095)	99	251,501,584	(5,950,838)
Securities held-to-maturity						
Municipal securities	63	72,602,167	(646,066)	12	10,140,175	(54,782)
Total securities held-to-maturity	63	72,602,167	(646,066)	12	10,140,175	(54,782)
Total temporary impaired securities	243	$ 705,384,266	$ (9,497,161)	111	$ 261,641,759	$ (6,005,620)

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of the major components of loans outstanding at December 31:

	2022	2021
Construction loans	51,408,855	43,911,320
Commercial real estate loans	1,789,549,554	1,379,173,727
Residential real estate loans	104,143,145	89,645,560
Commercial loans	468,086,339	548,621,832
Other	27,013,685	16,429,751
Loans receivable	2,440,201,578	2,077,782,190
Allowance for loan losses	(29,635,288)	(25,061,555)
Loans receivable, net	2,410,566,290	$2,052,720,635

Loans receivable includes net deferred loan fees of $3,329,573 and $5,828,893 as of December 31, 2022 and 2021, respectively.

The Bank makes loans to borrowers in a number of different industries. As a normal practice in extending credit for real estate purposes, the Bank accepts trust deeds on real property as collateral for these loans. At December 31, 2022 and 2021, most of the Bank's loans secured by real estate were collateralized by properties in Southern California.

The following table presents the activity in the allowance for loan losses by portfolio segment for each of the years ending December 31:

	2022				
	Balance, beginning of year	Charge-offs	Recoveries	Provision for loan losses	Balance, end of year
Construction	$ 918,216	$ -	$ -	$ 110,537	$ 1,028,753
Commercial real estate	17,107,389	-	-	3,445,426	20,552,815
Residential real estate	611,270	-	-	86,599	697,869
Commercial	6,140,823	-	68,470	709,858	6,919,151
Other	283,857	(22,860)	13,125	162,580	436,700
	$ 25,061,555	$ (22,860)	$ 81,595	$ 4,515,000	$ 29,635,288

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

	2021				
	Balance, beginning of year	Charge-offs	Recoveries	Provision for loan losses	Balance, end of year
Construction	$ 999,570	$ -	$ -	$ (81,354)	$ 918,216
Commercial real estate	15,321,938	-	-	1,785,451	17,107,389
Residential real estate	473,663	-	-	137,607	611,270
Commercial	5,875,779	(211,681)	456,560	20,165	6,140,823
Other	259,631	(66,905)	-	91,131	283,857
	$ 22,930,581	$ (278,586)	$ 456,560	$ 1,953,000	$ 25,061,555

The following tables present both the allowance for loan loss and the associated loan balance classified by loan portfolio segment and by credit evaluation methodology at December 31:

	2022				
	Individually evaluated for impairment	Allowance: Individually evaluated for impairment	Collectively evaluated for impairment	Allowance: Collectively evaluated for impairment	Total loans
Construction	$ -	$ -	$ 51,408,855	$ 1,028,753	$ 51,408,855
Commerical real estate	7,054,740	-	1,782,494,814	20,552,815	1,789,549,554
Residential real estate	-	-	104,143,145	697,869	104,143,145
Commerical	6,926,819	487,073	461,159,520	6,432,078	468,086,339
Other	-	-	27,013,685	436,700	27,013,685
	$ 13,981,559	$ 487,073	$ 2,426,220,019	$ 29,148,215	$ 2,440,201,578

	2021				
	Individually evaluated for impairment	Allowance: Individually evaluated for impairment	Collectively evaluated for impairment	Allowance: Collectively evaluated for impairment	Total loans
Construction	$ -	$ -	$ 43,911,320	$ 918,216	$ 43,911,320
Commerical real estate	1,857,124	-	1,377,316,603	17,107,389	1,379,173,727
Residential real estate	-	-	89,645,560	611,270	89,645,560
Commerical	396,928	3,205	548,224,904	6,137,618	548,621,832
Other	-	-	16,429,751	283,857	16,429,751
	$ 2,254,052	$ 3,205	$ 2,075,528,138	$ 25,058,350	$ 2,077,782,190

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The following tables present information related to impaired loans as of and for the years ended December 31:

	Unpaid principal balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	$ 7,054,740	$ 7,054,740	$ -	$ 7,330,459	$ 338,712	$ -
With an allowance recorded:						
Commercial	$ 6,999,294	$ 6,926,819	$ 487,073	$ 6,845,562	$ 111,589	$ -
Total	$ 14,054,034	$ 13,981,559	$ 487,073	$ 14,176,021	$ 450,301	$ -

	2021					
	Unpaid principal balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	$ 1,857,124	$ 1,857,124	$ -	$ 1,878,235	$ 83,281	$ -
Commercial	$ 59,063	$ 59,063	$ -	$ 62,327	$ 3,305	$ -
With an allowance recorded:						
Commercial	$ 342,824	$ 337,864	$ 3,205	$ 348,067	$ 990	$ -
Total	$ 2,199,948	$ 2,194,988	$ 3,205	$ 2,226,302	$ 84,271	$ -

Beginning in April 2020, the Bank participated in the Paycheck Protection Program ("PPP"), under the provisions of the CARES Act. The loans have a five year term, are fully guaranteed by the Small Business Administration (SBA) and do not carry an allowance for loan losses. Loan processing fees paid to the Bank by the SBA are accounted for as loan origination fees. The loan processing fees and related loan origination costs are deferred and netted against outstanding loan balances on the balance sheets. The net deferred loan fees are recognized in interest income over the contractual life of the loan as a yield adjustment on the loans. Payments by borrowers on PPP loans begin ten months after the loan forgiveness covered period. Under the terms of the PPP, such loans are eligible to be forgiven if certain conditions are satisfied, in which case the SBA will make payments to the Bank for the forgiven amounts. If a loan is paid off or forgiven by the SBA prior to its contractual life, the remaining unamortized deferred fees will be recognized as interest income in that period. As of December 31, 2022, PPP loans had an outstanding balance of $9,723,838 that includes net deferred loan fees of $218,587 and are included in Commercial loans. As of December 31, 2021, PPP loans had an outstanding balance of $147,386,967 that includes net deferred loans fees of $3,802,753. For the years ended December 31, 2022 and 2021, net loan fees for PPP loans of $3,584,167 and $13,512,929 were recognized in interest income, respectively. During the years ended December 31, 2022 and 2021, $131,084,927 and $659,493,533 of PPP loans were forgiven, respectively.

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The Bank uses a ten point internal risk rating system to monitor the credit quality of the loans in the Bank's segments. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually or when credit deficiencies, such as delinquent loan payments arise. The criticized rating categories utilized by management generally follow bank regulatory definitions. Loans in the Pass category are those which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are several different levels of Pass rated credits, including Watch, which includes credits that require heightened monitoring due to an identified potential weakness but demonstrates the ability to meet obligations and does not yet meet the criteria for Special Mention. The Special Mention category includes assets that show potential weaknesses or risks that deserve management's special attention. If uncorrected, the weaknesses may result in deterioration of the prospect for repayment. Loans classified Substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a Loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

The following table presents the classes of loans summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful and Loss within the internal risk rating system as of December 31:

	2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction	$ 50,341,098	$ 1,067,757	$ -	$ -	$ -	$ 51,408,855
Commercial real estate	1,771,399,107	11,095,707	7,054,740	-	-	1,789,549,554
Residential real estate	103,643,145	500,000	-	-	-	104,143,145
Commercial	441,328,703	19,830,817	6,926,819	-	-	468,086,339
Other	27,013,685	-	-	-	-	27,013,685
	$ 2,393,725,738	$ 32,494,281	$ 13,981,559	$ -	$ -	$ 2,440,201,578

	2021					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction	$ 43,911,320	$ -	$ -	$ -	$ -	$ 43,911,320
Commercial real estate	1,330,607,326	46,709,277	1,857,124	-	-	1,379,173,727
Residential real estate	89,095,560	550,000	-	-	-	89,645,560
Commercial	530,036,501	18,142,127	443,204	-	-	548,621,832
Other	16,429,751	-	-	-	-	16,429,751
	$ 2,010,080,458	$ 65,401,404	$ 2,300,328	$ -	$ -	$ 2,077,782,190

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table represents the classes of the loans receivable portfolio summarized by aging categories of performing loans and non-accrual loans as of December 31:

2022	30-59 Days past due	60-89 Days past due	90 or more Days past due	Total past due	Current	Total loans	Non-accrual loans
Construction	$ -	$ -	$ -	$ -	$ 51,408,855	$ 51,408,855	$ -
Commercial real estate	-	-	-	-	1,789,549,554	1,789,549,554	-
Residential real estate	-	-	-	-	104,143,145	104,143,145	-
Commercial	-	-	-	-	461,159,520	468,086,339	6,926,819
Other	-	-	-	-	27,013,685	27,013,685	-
	$ -	$ -	$ -	$ -	$2,433,274,759	$ 2,440,201,578	$ 6,926,819

2021	30-59 Days past due	60-89 Days past due	90 or more Days past due	Total past due	Current	Total loans	Non-accrual loans
Construction	$ -	$ -	$ -	$ -	$ 43,911,320	$ 43,911,320	$ -
Commercial real estate	-	-	-	-	1,379,173,727	1,379,173,727	-
Residential real estate	-	-	-	-	89,645,560	89,645,560	-
Commercial	-	-	-	-	548,283,968	548,621,832	337,864
Other	-	-	-	-	16,429,751	16,429,751	-
	$ -	$ -	$ -	$ -	$2,077,444,326	$ 2,077,782,190	$ 337,864

There were no troubled debt restructuring (TDR) loans at December 31, 2022 and 2021, and there were no loans modified in a TDR during the years ended December 31, 2022 and 2021.

The Bank has granted various short-term loan modifications to provide borrowers relief from the economic impact of COVID-19. In accordance with the CARES Act, and/or related regulatory guidance, the Bank elected to not apply TDR classification to COVID-19 related loan modifications that met all of the requisite criteria as stipulated in the CARES Act or related regulatory guidance. There were none of those loans in their deferment period as of December 31, 2022 and 2021, respectively.

NOTE D - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET

The composition of the Bank's furniture, equipment and leasehold improvements at December 31 is as follows:

	2022	2021
Furniture and equipment	$ 6,985,149	$ 7,011,241
Leasehold improvements	6,523,993	7,111,023
Total	13,509,142	14,122,264
Less: Accumulated depreciation and amortization	(7,904,466)	(7,542,349)
	$ 5,604,676	$ 6,579,915

Depreciation and amortization expense was $1,772,815 and $1,773,819 for the years ended December 31, 2022 and 2021, respectively.

NOTE E – LEASES

The Bank enters into leases in the normal course of business primarily for its headquarters, back-office operations and loan production offices. The Bank's leases have remaining terms ranging from 0 to 7.50 years. Certain lease arrangements contain extension options which are typically around 5 years, while certain leases include lessee termination options. As these extension options are not generally considered reasonably certain of exercise, they are not included in the lease term. The Bank's leases do not include residual value guarantees or covenants. The Bank has elected not to recognize leases with original terms of 12 months or less on the balance sheets.

Leases are classified as operating or finance leases at the lease commencement date. Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Lease incentives that are paid or payable to the lessee are deducted from lease payments and reduce the initial measurement of a lessee's right-of-use asset. Furthermore, the lease incentive is recognized on a straight-line basis as an offset to lease expense over the term of the lease beginning at the commencement date. The Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy and equipment expense in the Statements of Income. The Bank's occupancy expense also includes variable lease costs which is comprised of the Bank's share of common area maintenance that is not included in lease liabilities and expensed as incurred.

NOTE E – LEASES - Continued

The Bank uses its incremental borrowing rate at lease commencement or at the lease amendment/modification date to calculate the present value of lease payments when the implicit rate is not known. The Bank's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

As of December 31, 2022, operating lease right-of-use assets and related liabilities were $7,764,966 and $13,122,024, respectively. As of December 31, 2021, operating lease right-of-use assets and related liabilities were $8,160,828 and $14,015,112, respectively. The operating lease ROU assets and operating lease liabilities are reported in other assets and other liabilities, respectively. The Bank did not have any finance leases as of December 31, 2022 and 2021. During the year ended December 31, 2022, the Bank had one new lease in January 2022 and amended one lease to expand the office and extend the term in July 2022. During the year ended December 31, 2021, the Bank had one new lease in August 2021 and amended one lease to expand the office and extend the term in September 2021. The Bank reassessed the ROU asset and liability related to these new or amended leases. The total lease cost was $1,811,604 and $1,695,482 for the years ended December 31, 2022 and 2021, respectively.

The table below summarizes the maturity of remaining lease liabilities as of December 31, 2022:

2023	$	2,361,257
2024		2,003,943
2025		1,878,205
2026		1,920,213
2027		1,755,471
Thereafter		4,210,915
Total undiscounted lease payments		14,130,004
Less: imputed interest		(1,007,980)
Net lease liabilities	$	13,122,024

The table below summarizes other information related to the Bank's operating leases for the years ended December 31:

		2022		2021
Cash paid for amounts included in the measurement of lease liabilites				
Operating cash outflows from operating leases	$	2,305,759	$	2,154,228
Right-of-use assets obtained in exchange for new operating lease liabilites		1,130,813		1,107,543

NOTE E – LEASES - Continued

The table below summarizes other information related to the Bank's operating leases as of December 31:

	2022	2021
Operating lease weighted average remaining lease term (years)	6.48	6.89
Operating lease weighted average discount rate	2.91%	2.80%

As of December 31, 2022, the Bank entered into two additional operating lease commitments that have not yet commenced.

NOTE F - DEPOSITS

At December 31, 2022 and 2021, the Bank had certificates of deposit with balances of $250,000 or more of $37,621,567 and $35,039,600, respectively.

At December 31, 2022, the scheduled maturities for certificates of deposits were as follows:

Scheduled maturities in:	
2023	$ 41,617,776
2024	239,861
Total	$ 41,857,637

NOTE G - ADVANCES FROM THE FEDERAL HOME LOAN BANK AND OTHER BORROWINGS

Federal Home Loan Bank ("FHLB") advances at December 31, 2022 and 2021 were $155,000,000 and $0, respectively. The overnight borrowing was at a rate of 4.65% at December 31, 2022. Pursuant to agreements with the FHLB, any advances are collateralized by certain investment securities or real estate loans. The carrying value of the investment securities pledged were $39,616,274 and $63,470,869 at December 31, 2022 and 2021, respectively.

NOTE G - ADVANCES FROM THE FEDERAL HOME LOAN BANK AND OTHER BORROWINGS – Continued

The Bank has established a Standard Credit program with the FHLB and has $1,279,199,928 of its Real Estate loan portfolio pledged as collateral. This program gives the Bank a borrowing capacity of $704,583,319 as of December 31, 2022. The Bank has $35,663,878 of borrowing capacity supported by investment securities pledged with the FHLB. To reach a total borrowing capacity of $740,247,197 collateralized by the current level of pledged loans and securities, additional purchases of FHLB stock would be required.

In connection with outstanding FHLB advances, the Bank had FHLB stock of $15,000,000 and $11,778,500 at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Bank was required to own FHLB stock equal to a percentage of outstanding FHLB advances. FHLB stock is carried at cost as it does not have a readily determinable fair value.

Other Borrowings represent Federal funds purchased on an overnight basis. The Bank has a line of credit commitment with four correspondent banks and the Federal Reserve Bank for overnight borrowings up to $179,767,474 and $155,157,548 of which $6,500,000 and $0 was outstanding at December 31, 2022 and 2021, respectively. The overnight borrowing was at a rate of 4.5% at December 31, 2022.

NOTE H - INCOME TAXES

Income tax expense for the years ended December 31, includes the following:

	2022	2021
Current:		
Federal	$ 12,508,825	$ 9,656,484
State	7,853,628	6,063,728
	20,362,453	15,720,212
Deferred:		
Federal	(1,727,363)	(1,566,789)
State	(672,234)	(499,399)
	(2,399,597)	(2,066,188)
Total income tax expense	$ 17,962,856	$ 13,654,024

NOTE H - INCOME TAXES - Continued

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31 are presented below:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 8,739,567	$ 7,391,192
Deferred lease liability	3,869,738	4,133,359
Accrued deferred compensation	4,414,192	4,549,778
Unrealized net loss on investment securities	34,076,467	2,168,212
State taxes	1,608,136	1,267,766
Accrued post-retirement health benefits	657,722	654,768
Stock-based compensation costs	782,772	702,889
Allowance for unfunded commitments	368,630	369,832
Other	830,352	915,866
Total deferred tax assets	$ 55,347,576	$ 22,153,662
Deferred tax liabilities:		
Depreciation and amortization	$ (983,751)	$ (1,402,903)
Lease right-of-use assets	(2,289,920)	(2,406,804)
Prepaid expenses and deferred loan costs	(390,257)	(968,159)
	$ (3,663,928)	$ (4,777,866)
Net deferred tax assets	$ 51,683,648	$ 17,375,796

The income tax provisions for 2022 and 2021 differ from the amounts computed by applying the Federal statutory rate of 21% for 2022 and 2021, as follows:

Federal statutory income tax rate	$ 13,969,635	$ 11,091,477
State taxes, net of federal benefit	5,647,995	4,474,422
Tax exempt interest, net of interest disallowed	(1,778,961)	(1,609,124)
Other	124,187	(302,751)
Effective income tax expense	$ 17,962,856	$ 13,654,024

NOTE I - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Bank's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data

Level 3 – Unobservable inputs developed using the Bank's estimates and assumptions, which reflect those that market participants would use

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Bank evaluates its hierarchy disclosures each quarter and based on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. However, the Bank expects that changes in classifications between different levels will be rare.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow method or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The fair value estimates may not be realized in an immediate settlement of the instrument. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

NOTE I - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The following methods and assumptions were used by the Bank in estimating fair value:

Securities available-for-sale and held-to-maturity: Fair value for securities categorized as Level 1, is based on readily available quoted prices. In determining the fair value of the securities categorized as Level 2, we obtain a report from a nationally recognized broker-dealer detailing the fair value of each investment security we hold as of each reporting date. The broker-dealer uses observable market information to value the Bank's securities, with the primary source being a nationally recognized pricing service. The Bank's securities portfolio is classified within Level 2.

Impaired loans: The Bank typically adjusts the carrying amount of impaired loans when there is evidence of probable loss and when the expected fair value of the loan is less than its carrying amount. Impaired loans with specific reserves are classified as Level 3 assets. The following methods are used to determine the fair value of impaired loans:

(1) Discounted cash flows valuation techniques generally consist of developing an expected stream of cash flows over the life of the loans and then valuing the loans at the present value by discounting the expected cash flows based on the original effective interest rate on the loan.

(2) A specific reserve is established for an impaired loan based on the fair value of the underlying collateral, which may take the form of real estate, inventory or equipment. The fair value of the underlying collateral is generally based on third-party appraisals, or an internal evaluation if a third-party appraisal is not required by regulations, which utilizes one or more valuation techniques such as income, market, and/or cost approaches.

NOTE I - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

Assets measured at fair value on a recurring basis at December 31, are as follows:

	Fair Value Measurements on a Recurring Basis at December 31, 2022 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Securities available-for-sale				
U.S. SBA loan pool securities	$ -	$ 123,163,741	$ -	$ 123,163,741
Residential mortgage-backed securities	-	410,587,896	-	410,587,896
Commercial mortgage-backed securities	-	28,787,776	-	28,787,776
Corporate securities	-	15,020,794	-	15,020,794
Municipal securities	-	101,788,468	-	101,788,468
Total recurring	$ -	$ 679,348,675	$ -	$ 679,348,675

	Fair Value Measurements on a Recurring Basis at December 31, 2021 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Securities available-for-sale				
U.S. SBA loan pool securities	$ -	$ 185,170,312	$ -	$ 185,170,312
Residential mortgage-backed securities	-	726,736,841	-	726,736,841
Commercial mortgage-backed securities	-	81,759,224	-	81,759,224
Corporate securities	-	12,903,357	-	12,903,357
Municipal securities	-	231,916,944	-	231,916,944
Total recurring	$ -	$ 1,238,486,678	$ -	$ 1,238,486,678

NOTE I - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Assets measured at fair value on a non-recurring basis at December 31 are as follows:

	Fair Value Measurements on a Non-Recurring Basis at December 31, 2022 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans:				
Commercial real estate	$ -	$ -	$ 7,054,740	$ 7,054,740
Commercial	-	-	6,439,746	6,439,746
Total non-recurring	$ -	$ -	$ 13,494,486	$ 13,494,486

	Fair Value Measurements on a Non-Recurring Basis at December 31, 2021 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans:				
Commercial real estate	$ -	$ -	$ 1,857,124	$ 1,857,124
Commercial	-	-	393,723	393,723
Total non-recurring	$ -	$ -	$ 2,250,847	$ 2,250,847

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at December 31:

	2022				
	Fair Value	Valuation Technique(s)	Unobservable input(s)	Range of input(s)	Weighted Average
Assets:					
Impaired loans	$ 7,054,740	Fair value of collateral	Discount rate	10% to 20%	14.01%
Impaired loans	6,439,746	Discounted cash flows	Discount rate	8.19%	8.19%
Total impaired loans:	$ 13,494,486				

	2021				
	Fair Value	Valuation Technique(s)	Unobservable input(s)	Range of input(s)	Weighted Average
Assets:					
Impaired loans	$ 1,916,187	Fair value of collateral	Discount rate	10% to 20%	18.42%
Impaired loans	334,660	Discounted cash flows	Discount rate	8.39%	8.39%
Total impaired loans:	$ 2,250,847				

NOTE I - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

The carrying amounts of and estimated fair value of financial instruments not carried at fair value, at December 31 are as follows:

		Fair Value Measurements at December 31, 2022 Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 36,574,827	$ 36,574,827	$ -	$ -	$ 36,574,827
Securities held-to-maturity	584,743,804	-	470,000,888	-	470,000,888
Loans receivable, net	2,410,566,290	-	-	2,322,809,507	2,322,809,507
Accrued interest receivable	15,890,834	-	15,890,834	-	15,890,834
Financial Liabilities:					
Non-interest bearing demand deposits	1,808,570,166	$ -	$ 1,808,570,166	$ -	$ 1,808,570,166
Interest bearing transaction accounts	314,747,405	-	314,747,405	-	314,747,405
Money market and savings deposits	1,225,619,495	-	1,225,619,495	-	1,225,619,495
Certificates of deposit	41,857,637	-	41,857,637	-	41,857,637
Accrued interest payable	99,993	-	99,993	-	99,993

		Fair Value Measurements at December 31, 2021 Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 228,870,241	$ 228,870,241	$ -	$ -	$ 228,870,241
Securities held-to-maturity	298,651,185	-	306,532,518	-	306,532,518
Loans receivable, net	2,052,720,635	-	-	2,052,883,276	2,052,883,276
Accrued interest receivable	14,209,497	-	14,209,497	-	14,209,497
Financial Liabilities:					
Non-interest bearing demand deposits	$ 1,934,443,799	$ -	$ 1,934,443,799	$ -	$ 1,934,443,799
Interest bearing transaction accounts	287,223,678	-	287,223,678	-	287,223,678
Money market and savings deposits	1,337,034,949	-	1,337,034,949	-	1,337,034,949
Certificates of deposit	39,444,948	-	39,450,786	-	39,450,786
Accrued interest payable	21,154	-	21,154	-	21,154

NOTE J - REGULATORY MATTERS

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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Bank has elected to exclude accumulated other comprehensive income from regulatory capital.

Failure to meet minimal capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

The Bank is subject to regulatory risk-based capital rules adopted by the federal banking agencies under Basel III. Beginning January 1, 2016, Basel III required all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. At December 31, 2022, the Bank was in compliance with the capital conservation buffer requirement for the common equity Tier 1, Tier 1 and total capital ratio minimums inclusive of the capital conservation buffer of 7.0%, 8.5% and 10.5%, respectively.

The quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

NOTE J - REGULATORY MATTERS – Continued

As of December 31, 2022, the most recent regulatory notifications categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage ratios and Common Equity Tier I as set forth in the table. There are no conditions or events since that notification that management believe have changed the Bank's category. The following tables represent the amounts of regulatory capital and the capital ratios for the Bank, compared to its minimum regulatory capital requirements as of December 31, 2022 and 2021 ($ in thousands).

	Actual		For capital adequacy purposes		To be "well capitalized" under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022:						
Total capital (to risk weighted assets)	$ 366,510	12.46%	$ 235,343	8.00%	$ 294,179	10.00%
Tier I capital (to risk weighted assets)	$ 335,625	11.41%	$ 176,508	6.00%	$ 235,343	8.00%
Tier I leverage (to average assets)	$ 335,625	8.75%	$ 153,401	4.00%	$ 191,751	5.00%
Common Equity Tier I (to risk weighted assets)	$ 335,625	11.41%	$ 132,381	4.50%	$ 191,216	6.50%

	Actual		For capital adequacy purposes		To be "well capitalized" under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021:						
Total capital (to risk weighted assets)	$ 309,994	13.21%	$ 187,780	8.00%	$ 234,725	10.00%
Tier I capital (to risk weighted assets)	$ 283,678	12.09%	$ 140,835	6.00%	$ 187,780	8.00%
Tier I leverage (to average assets)	$ 283,678	7.09%	$ 160,075	4.00%	$ 200,094	5.00%
Common Equity Tier I (to risk weighted assets)	$ 283,678	12.09%	$ 105,626	4.50%	$ 152,571	6.50%

NOTE K - DEFINED CONTRIBUTION PLAN

On June 14, 1998, the Bank established a 401(k) plan. Under the 401(k) plan, eligible employees may contribute all or a portion of their compensation, up to the maximum dollar amount determined by the IRS each year. To be eligible to participate in the 401(k) plan, employees must have attained the age of 18. The Bank matches 50% of the first 8% of the participant's contribution. The Bank contributed $822,984 and $836,714 to the plan during the years ended December 31, 2022 and 2021, respectively.

NOTE L - DEFERRED COMPENSATION PLAN

Deferred Compensation Plan: The Bank has a deferred compensation plan (the "Plan") which covers the Bank's Directors and certain senior officers. Each covered employee may defer a portion of their base salary, as well as incentive/bonus payments for the Plan year. The directors may defer a portion or all of their director fee compensation. The amount of compensation deferred by each participant is determined in accordance with each participant's deferral election and the provisions of the Plan. The Plan provides for each participant to have their own deferral account and select measurement investment funds available under the terms of the Plan. The Plan also allows for the Bank, in its sole discretion or in accordance with employment or other agreements, to contribute amounts annually to each participants' account.

The Bank has established a rabbi trust to hold assets contributed under the Plan. These assets remain general assets of the Bank. Participants have the same rights with other unsecured and unsubordinated indebtedness of the Bank for any deficiency in the value of the assets. The Bank has purchased life insurance policies on a selected group of current and former senior officers where the Bank is the owner and beneficiary of the policies. The BOLI and COLI are recorded as an asset at their cash surrender value. Changes in the cash surrender value of these policies, as well as a portion of the insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. At December 31, 2022 and 2021, the cash surrender value of the BOLI and COLI policies was $ 27,668,472 and $28,850,883, respectively, and is recorded as Bank/corporate owned life insurance on the balance sheets. At December 31, 2022, the insurance was allocated among four individual insurance companies, with balances ranging from approximately 4% to 42% of the Bank's outstanding BOLI and COLI balances.

Benefits in the Plan are payable starting at the scheduled distribution date, which is determined by the participant and must be no sooner than four years after the date of deferral, or upon the retirement or death of the participant. The benefits are payable in a lump sum or via installments over time. The amount of a participant's benefits is based on that individual's choice of measurement investment funds and how the funds performed. At December 31, 2022, there are twenty-two measurement investment funds under the Plan.

NOTE L - DEFERRED COMPENSATION PLAN - Continued

Deferrals made into the ABB Stock Unit Measurement Fund are limited to stock-based compensation granted to the directors. The number of shares is adjusted for cash dividends, stock dividends, stock splits and other similar events. Distributions from the ABB Stock Unit Measurement Fund can only be made in the form of Bank stock.

For directors and the five founders of the Bank, deferrals mirrored investment in Bank shares (the ABB Stock Unit Measurement Fund) and the number of shares is determined based on that which could be purchased based upon fair value of the shares on the date of deferral. 5,627 and 2,889 shares were issued as distributions of restricted stock from the Plan for the years ended December 31, 2022 and 2021, respectively.

The deferred compensation obligation related to the Plan was $9,882,857 and $10,159,855 at December 31, 2022 and 2021, respectively, and is included in accrued interest and other liabilities. Compensation deferral elections by the participant and contributions from the Bank increase the deferred compensation obligation and are recorded as a charge to salaries and employee benefits expense. Contributions made by the Bank and participants were $1,084,581 and $1,186,826 for the years ended December 31, 2022 and 2021, respectively. The fair value of the participants' measurement investment funds, excluding the ABB Stock Unit Measurement Fund, decreased by $568,281 and increased by $888,171 for the year ended December 31, 2022 and 2021, respectively. The net change results increased the deferred compensation obligation with a corresponding charge to salaries and employee benefits expense.

NOTE M - STOCK-BASED COMPENSATION PLANS

Stock Options

The Bank has established the 2014 Omnibus Plan (the Plan) which provides for the issuance of incentive stock options subject to the terms and conditions of the Plan. The incentive stock options issued under the plan allow employees the opportunity to purchase stock at not less than 100% of its fair value as of the grant date. Shares authorized for stock option grants under the Plan were 234,096 shares. At December 31, 2022 and 2021, 226,866 shares were available for future stock option grants under the Plan.

Options granted to employees have a ten-year life and typically vest over a three to five year period beginning on the second anniversary from the grant date. It is the Bank's policy that shares issued upon the exercise of stock options come from authorized, but previously un-issued shares.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option valuation model. The expected life was estimated based on the expected exercise activity of the grantee population. The volatility factors were based on the historical volatilities of the Bank's stock, and these were used to estimate volatilities over the expected life of the options. The risk-free interest rate was the implied yield available on zero coupons (U.S. Treasury Rate) at the grant date with a remaining term equal to the expected life of the options. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive stock incentive awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Bank. No options were granted during 2022 and 2021.

The Bank's pre-tax compensation expense for incentive stock options was $332 and $991 for the years ended December 31, 2022 and 2021, respectively.

NOTE M - STOCK-BASED COMPENSATION PLANS – Continued

The following table summarizes the stock option activity for the years ended December 31:

	2022		
Stock Options:	Shares		Weighted average exercise price
Outstanding, beginning of period	92,570	$	17.00
Granted	-		-
Exercised	(65,717)		15.68
Forfeited or expired	-		-
Outstanding, end of period	26,853	$	20.25
Options exercisable at year end	26,853	$	20.25

	2021		
Stock Options:	Shares		Weighted average exercise price
Outstanding, beginning of period	128,429	$	16.55
Granted	-		-
Exercised	(34,649)		14.70
Forfeited or expired	(1,210)		35.12
Outstanding, end of period	92,570	$	17.00
Options exercisable at year end	92,449	$	16.98

Total intrinsic value of options exercised was $1,461,363 and $734,270 for the years ended December 31, 2022 and 2021, respectively.

NOTE M - STOCK-BASED COMPENSATION PLANS - Continued

The following information applies to options outstanding at December 31:

2022					
	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$18.09 - $32.85	24,661	0.87	$ 18.90	24,661	$ 18.90
$35.24 - $36.22	2,192	4.67	35.39	2,192	35.39
	26,853	1.18	$ 20.25	26,853	$ 20.25
Aggregate intrinsic value	$ 525,064			$ 525,064	

2021					
	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$13.09 - $21.03	87,111	1.17	$ 16.28	87,111	$ 16.28
$21.75 - $27.14	2,662	3.07	21.75	2,662	21.75
$32.85 - $36.22	2,797	5.60	34.84	2,676	34.93
	92,570	1.35	$ 17.00	92,449	$ 16.98
Aggregate intrinsic value	$ 2,081,757			$ 2,080,954	

Aggregate intrinsic value represents the difference between the Bank's closing stock price on the last trading day of the period, which was $39.80 and $39.49 as of December 31, 2022 and 2021, respectively, and the exercise price multiplied by the number of options outstanding or exercisable.

For the years ended December 31, 2022 and 2021, the total grant date fair value of options vested was $1,309 and $7,939, respectively. As of December 31, 2022 and 2021, the Bank had approximately $0 and $333 of unrecognized compensation costs related to unvested options.

NOTE M - STOCK-BASED COMPENSATION PLANS - Continued

Restricted Stock Awards/Units

The 2014 Omnibus Plan also provides for the issuance of Restricted Stock Awards/Units subject to the terms and conditions of the Plan. Under the Plan, 746,704 shares of restricted stock were authorized, and 291,192 and 361,252 shares were available for future awards as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, a total of 530,183 and 460,123 shares, respectively, have been issued since the inception of the Plan. The Bank granted 70,060 and 80,481 Restricted Stock Awards/Units to employees and directors in 2022 and 2021, respectively.

The 2014 Omnibus Plan was amended in April 2018, whereby at the option of the employee, shares can be repurchased by the Bank, pursuant to net settlement by employees, in amounts necessary to cover income tax withholding obligations incurred through the vesting of restricted stock. The 2014 Omnibus Plan was amended in May 2019, whereby Restricted Stock Units were added to the Plan as another equity instrument that may be granted to directors and employees. The 2014 Omnibus Plan was amended in December 2020 to increase the number of shares that may be issued under the Plan by 400,000 shares.

Non-Participating Restricted Stock Units and Awards were granted to directors in 2022 and 2021, respectively, and they vest on the earlier of one year or the next annual shareholders' meeting. Restricted Stock Units and Awards are granted to employees and typically begin vesting in the second year from the grant date over a three to five year period.

The Bank recognized pre-tax compensation expense of $2,785,326 and $2,499,767 on restricted stock awards/units during the year ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the Bank had $4,677,846 and $4,903,357, respectively, of remaining unrecognized compensation costs related to the unvested portion of restricted stock awards/units which will be recognized over a weighted average period of 3.0 years.

NOTE M - STOCK-BASED COMPENSATION PLANS - Continued

The following table summarizes the restricted stock activity for the years ended December 31:

	2022		
Restricted Stock:	Shares		Weighted average grant price
Unvested, beginning of period	209,693	$	32.76
Granted	70,060		41.38
Vested	(76,266)		33.52
Cancelled and forfeited	(9,753)		35.77
Unvested, end of period	193,734	$	35.43

	2021		
Restricted Stock:	Shares		Weighted average grant price
Unvested, beginning of period	208,424	$	31.89
Granted	80,481		32.80
Vested	(74,211)		30.31
Cancelled and forfeited	(5,001)		33.44
Unvested, end of period	209,693	$	32.76

NOTE N - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONTINGENCIES

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

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include cash collateral, accounts receivable, inventory, equipment, and income-producing commercial properties.

Loan commitments to extend credit and commercial letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee future rental lease payments, captive insurance premiums and real estate borrowings obtained from different financial institutions.

Commitments generally have fixed expiration dates or other termination clauses and often require payment of a fee. Since many of the commitments and stand-by letters of credit are expected to expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements.

As of December 31, 2022 and 2021, the Bank established a reserve for estimated losses on off balance sheet commitments of $1,250,000 and $1,254,000, respectively. These balances are included in other liabilities on the balance sheet.

At December 31, the following financial instruments were:

	2022	2021
Loan commitments to extend credit	$ 1,100,620,236	$ 945,780,071
Commercial letters of credit	1,055,410	3,218,554
Standby letters of credit	38,458,975	35,891,140

NOTE N - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONTINGENCIES - Continued

From time to time the Bank is a party to claims and legal proceedings arising in the ordinary course of business. The Bank accrues for any probable loss contingencies that are estimable and discloses any material losses. As of December 31, 2022, there were no legal proceedings against the Bank the outcome of which are expected to have a material adverse impact on the Bank's financial position, results of operations or cash flows, as a whole.

NOTE O - RELATED PARTY TRANSACTIONS

During 2022 and 2021, there were no existing transactions that are out of the ordinary course of business between the Bank and its executive officers, directors, principal stakeholders (beneficial owners of 5% or more of our Common Stock), or the immediate family or associates of any of the foregoing persons, or trust for the benefit of employees such as a 401(k) trust.

Some of the Bank's directors and executive officers, as well as the companies with which such directors and executive officers are associated, are customers of, and have had transactions with the Bank in the ordinary course of business. All such transactions are on substantially the same terms, including interest and collateral as those prevailing for comparable transactions with others.

The outstanding balances of related party loans at December 31, 2022 and 2021 are $12,025,693 and $12,643,704, respectively. Deposits from related parties held by the Bank at December 31, 2022 and 2021 amounted to $6,200,440 and $9,354,471, respectively.

The Bank has a liability for postretirement health benefits of $2,230,292 and $2,220,143 at December 31, 2022 and 2021, respectively. This accrual covers two directors who were former employees and are utilizing the benefits, and three executive officers of which two are retired and utilizing the benefits.

NOTE P – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Bank's revenue from contracts with customers in the scope of ASC Topic 606, Revenue from Contracts with Customers, is recognized within Non-Interest Income. The following table presents the Bank's sources of revenue from contracts with customers within the scope of ASC 606 for the twelve months ended December 31:

	2022	2021
Noninterest income		
Revenue from contracts with customers		
Customer analysis charges	$ 3,859,364	$ 3,173,687
Other deposit fees	178,596	140,337
Foreign currency exchange fees	768,500	666,606
Other international fees	592,350	543,478
Credit Card / Interchange fees	788,695	589,441
Other sources of non-interest income (a)	536,658	1,411,981
Total noninterest income	$ 6,724,163	$ 6,525,530

(a) Not within the scope of ASC 606

NOTE Q - SUBSEQUENT EVENTS

The Bank evaluated subsequent events through March 30, 2023, the date the financial statements were available to be issued.

HEADQUARTERS

400 SOUTH HOPE STREET, SUITE 300, LOS ANGELES CA 90071

American Business Bank is headquartered in Los Angeles with seven regional Loan Production Offices strategically located in North Orange County, Orange County, South Bay, San Fernando Valley, Riverside County, Inland Empire and Long Beach.

www.americanbb.bank