ABB

Annual Shareholder Report

2023

Dear Shareholders,

At ABB, we set out 25 years ago to become the best business bank in Southern California and I believe we have achieved that goal. We insisted on achieving this ambition by doing things the right way-treating clients and employees with respect, integrity, and fairness. For clients, it will always be about putting their interests first in doing the right thing. To our Shareholders, from day one we promised a conservative credit shop and above average banking returns. From my seat, we have delivered on our above promises, and we have every intention of sustaining that commitment into the future. This could not have come together without our discipline, execution, and our fantastic staff.

The year 2023 was both challenging and rewarding. Last year the banking system was impacted by challenges caused by the unprecedented rapid rise in interest rates over the previous year and recent volatility in the banking sector including bank failures. I am resolute in my belief that regional, and community financial institutions are integral to a healthy US economy. We negotiated through these troubled times quite well. Our team remained focused on successfully serving our customers and community, while garnering 164 new client relationships.

Financially, 2023 was our second-best year in our history. Our net income was nearly $44.0 million, a decline of 9% from our best results ever of $48.6 million in 2022. The income results were down due to rapidly increasing interest rates over the previous year and the pressure that was caused on deposit yields. In 2023 we grew our loans by $139 million or 6%, ending the year at $2.6 billion. Additionally, we increased our deposits by 3% or $107 million, ending the year at $3.5 billion. This growth can be attributed to the previously discussed new clients, a rarity in 2023 for any bank.

Our outlook for 2024 is cautiously optimistic, generally our clients are performing very well despite market uncertainties and a possible recession. We continue striving to further improve our best-in-class client experience by fine tuning our operations in both staff and technology to continue organically growing in 2024.

As always, I would like to thank our loyal clients, shareholders, and terrific staff.

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

AMERICAN BUSINESS BANK

Financial Statements and Report of Independent Auditor

December 31, 2023 and 2022

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RSM US LLP

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

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, 2023, 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 28, 2024, expressed an unmodified opinion on the effectiveness of the Bank's internal control over financial reporting.

Adoption of New Accounting Standard

As discussed in Note A to the financial statements, the Bank changed its method of accounting for credit losses on financial instruments in 2023 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Credit Losses).*

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 28, 2024

American Business Bank

BALANCE SHEETS

As of December 31, 2023 and 2022

ASSETS

	2023	2022
Cash and due from banks	$ 32,354,164	$ 34,643,582
Interest earning deposits in other financial institutions	10,803,735	1,931,245
Cash and cash equivalents	43,157,899	36,574,827
Securities available-for-sale, at fair value	611,201,775	679,348,675
Securities held-to-maturity, at amortized cost, net of allowance for credit losses	569,113,463	584,743,804
Federal Home Loan Bank stock, at cost	15,000,000	15,000,000
Loans receivable	2,579,639,897	2,440,201,578
Allowance for credit losses	(28,460,178)	(29,635,288)
Loans receivable, net	2,551,179,719	2,410,566,290
Furniture, equipment and leasehold improvements, net	4,588,964	5,604,676
Bank/corporate owned life insurance	28,897,714	27,668,472
Deferred income tax assets, net	47,185,970	51,683,648
Accrued interest receivable and other assets	32,398,053	29,571,118
Total assets	$ 3,902,723,557	$ 3,840,761,510

LIABILITIES AND SHAREHOLDERS' EQUITY

	2023	2022
Deposits		
Non-interest bearing demand deposits	$ 1,699,560,015	$ 1,808,570,166
Interest bearing transaction accounts	388,152,149	314,747,405
Money market and savings deposits	1,145,388,949	1,225,619,495
Certificates of deposit	264,311,606	41,857,637
Total deposits	3,497,412,719	3,390,794,703
Federal Home Loan Bank advances	55,000,000	155,000,000
Other borrowings	-	6,500,000
Accrued interest payable and other liabilities	36,257,534	34,017,033
Total liabilities	3,588,670,253	3,586,311,736
Commitments and contingencies		
Shareholders' equity		
Common stock, no par value; authorized, 15,000,000 shares; issued and outstanding, 9,041,911 and 8,963,108 shares at December 31, 2023 and 2022, respectively	208,047,696	205,558,476
Accumulated other comprehensive loss	(70,741,015)	(81,188,477)
Retained earnings	176,746,623	130,079,775
Total shareholders' equity	314,053,304	254,449,774
Total liabilities and shareholders' equity	$ 3,902,723,557	$ 3,840,761,510

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF INCOME

For the years ended December 31, 2023 and 2022

	2023	2022
Interest income		
Interest and fees on loans	$ 126,539,815	$ 98,995,367
Investment securities	31,230,066	27,778,310
Interest earning deposits in other financial institutions	1,362,530	975,271
Total interest income	159,132,411	127,748,948
Interest expense		
Interest bearing transaction accounts	2,352,972	217,383
Money market and savings deposits	19,598,946	2,158,034
Certificates of deposits	5,698,453	50,505
Federal Home Loan Bank advances and other borrowings	9,564,322	267,121
Total interest expense	37,214,693	2,693,043
Net interest income	121,917,718	125,055,905
Provision for credit losses	3,398,000	4,511,000
Net interest income after provision for credit losses	118,519,718	120,544,905
Noninterest income		
Deposit fees	3,896,018	4,037,960
International fees	1,569,069	1,360,850
Loss on sale of investment securities, net	(1,070,263)	(75,174)
Gain on sale of SBA loans, net	989,298	-
Bank/corporate owned life insurance income (loss)	1,229,242	(387,374)
Other non-interest income	2,231,481	1,787,901
Total noninterest income	8,844,845	6,724,163
Noninterest expense		
Salaries and employee benefits	45,631,195	41,688,912
Occupancy and equipment	4,799,520	4,674,563
Professional services	7,950,948	7,171,809
Promotion expenses	2,548,263	1,973,660
Other expenses	5,720,193	5,238,053
Total noninterest expense	66,650,119	60,746,997
Income before income taxes	60,714,444	66,522,071
Income tax expense	16,748,317	17,962,856
NET INCOME	$ 43,966,127	$ 48,559,215
Earnings per share - basic	$ 4.78	$ 5.34
Earnings per share - diluted	$ 4.76	$ 5.28
Weighted average shares - basic	9,191,664	9,095,159
Weighted average shares - diluted	9,237,873	9,194,381

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2023 and 2022

	2023	2022
Net Income	$ 43,966,127	$ 48,559,215
Other Comprehensive Income (Loss):		
Unrealized gains (losses) on securities:		
Available-for-sale:		
Net change in unrealized gains (losses)	14,942,386	(105,285,089)
Reclassification of losses to net income	(1,070,263)	(75,174)
Net unrealized gains (losses) on securities	13,872,123	(105,360,263)
Tax effect	(4,101,099)	31,148,287
Net unrealized gains (losses) on securities, net of tax	9,771,024	(74,211,976)
Held-to-maturity:		
Net change in unamortized unrealized loss on securities available-for-sale transferred to held-to-maturity	960,352	(2,570,622)
Tax effect	(283,914)	759,968
Net unrealized gains (losses) on securities, net of tax	676,438	(1,810,654)
Total other comprehensive income (loss)	10,447,462	(76,022,630)
Comprehensive income (loss)	$ 54,413,589	$ (27,463,415)

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, 2023 and 2022

	Shares outstanding	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
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
Cumulative effect of change in accounting principle (2)	-	-	2,700,721	-	2,700,721
Exercise of stock options	23,417	434,401	-	-	434,401
Restricted stock vested	61,890	-	-	-	-
Repurchase of restricted stock at vesting	(12,131)	(457,438)	-	-	(457,438)
Distribution of restricted stock from DCP plan (1)	5,627	-	-	-	-
Stock-based compensation	-	2,512,257	-	-	2,512,257
Net income for the year	-	-	43,966,127	-	43,966,127
Other comprehensive income	-	-	-	10,447,462	10,447,462
Balance at December 31, 2023	9,041,911	$ 208,047,696	$ 176,746,623	$ (70,741,015)	$ 314,053,304

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

(2) Impact due to adoption on January 1, 2023 of ASU 2016-13, "Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments," and the related amendments, commonly referred to as CECL - See Note A

The accompanying notes are an integral part of these statements.

American Business Bank

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 43,966,127	$ 48,559,215
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	3,398,000	4,511,000
Depreciation and amortization of furniture, equipment and leasehold improvements	1,560,219	1,772,815
Net amortization of premium on securities	8,384,750	11,801,732
Amortization of operating lease right-of-use assets	1,611,984	1,526,676
Stock-based compensation expense	2,512,257	2,785,658
Bank/corporate owned life insurance (income) loss	(1,229,242)	387,374
Loss on sales of investment securities, net	1,070,263	75,174
Deferred income tax benefit	(1,016,902)	(2,399,597)
Changes in assets and liabilities:		
Accrued interest receivable and other assets	(1,923,831)	(1,005,088)
Accrued interest payable and other liabilities	(618,587)	(2,684,101)
Net cash provided by operating activities	57,715,038	65,330,858
Cash flows used in investing activities:		
Purchases of Federal Home Loan Bank stock	-	(3,221,500)
Purchases of securities available-for-sale	(1,921,250)	(15,932,524)
Proceeds from sales of securities available-for-sale	14,871,903	24,016,140
Proceeds from maturities, paydowns and calls of securities available-for-sale	64,255,727	124,150,719
Proceeds from calls of securities held-to-maturity	11,893,323	21,003,258
Net increase in loans receivable	(139,782,141)	(362,360,655)
Proceeds from bank/corporate owned life insurance	-	795,037
Purchases of furniture, equipment and leasehold improvements	(544,507)	(797,576)
Net cash used in investing activities	(51,226,945)	(212,347,101)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended December 31, 2023 and 2022

	2023	2022
Cash flows from (used in) financing activities:		
Net increase (decrease) in deposits	$ 106,618,016	$ (207,352,671)
Net proceeds (payments) from Federal Home Loan Bank advances	(100,000,000)	155,000,000
Proceeds from other borrowings	1,140,100,000	6,500,000
Payments of other borrowings	(1,146,600,000)	-
Repurchase of restricted stock at vesting	(457,438)	(456,647)
Proceeds from exercise of stock options	434,401	1,030,147
Net cash provided by (used in) financing activities	94,979	(45,279,171)
Net increase (decrease) in cash and cash equivalents	6,583,072	(192,295,414)
Cash and cash equivalents at beginning of year	36,574,827	228,870,241
Cash and cash equivalents at end of year	$ 43,157,899	$ 36,574,827
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the year for:		
Interest	$ 35,115,814	$ 2,614,205
Income taxes	19,405,000	21,500,000
Supplemental noncash disclosures:		
Unrealized gains (losses) on investment securities, net of tax	10,447,462	$ (76,022,630)
Transfer of securities from available-for-sale to held-to-maturity	-	312,949,481
Lease liabilities arising from obtaining right-of-use assets	2,515,088	1,130,813

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 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.

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 credit 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, other than the adoption of Accounting Standards Update (ASU) 2016-13 on January 1, 2023 – see "Note A 15. Recent Accounting Pronouncements."

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. The unrealized gain or loss and the associated accumulated other comprehensive income is amortized over the expected life of the security as a yield adjustment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Allowance for Credit Losses – Available-for-Sale Securities: Effective January 1, 2023, upon the adoption of ASU 2016-13, debt securities available-for-sale are measured at fair value and are subject to impairment testing. A security is impaired if the fair value of the security is less than its amortized cost basis. When an available-for-sale security is considered impaired, the Bank must first assess whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Bank must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit losses by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit-related components (if any) of the fair value decline. On January 1, 2023, the date on which the Bank adopted ASU 2016-13, no allowance for credit losses was recorded for available-for-sale securities.

The amortized cost of the Bank's available-for-sale securities excludes accrued interest, which is included in Accrued Interest Receivable and Other Assets on the balance sheet. Accrued interest receivable on available-for-sale securities totaled $3,498,177 at December 31, 2023 and is excluded from the estimate of credit losses.

Allowance for Credit Losses – Held-to-Maturity Securities: The allowance for credits losses for held-to-maturity debt securities is recorded at the time of purchase or when the Bank designates securities as held-to-maturity. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type. Debt securities that are either guaranteed or issued by the U.S. government or government agency, are highly rated by major rating agencies, and have a long history of no credit losses are examples of securities to which the Bank applies a zero credit loss assumption. Any expected credit loss is provided through the allowance for credit losses and deducted from the amortized cost basis of the security. Accrued interest receivable on held-to-maturity securities totaled $3,626,116 at December 31, 2023 and is excluded from the estimate of credit losses.

Prior to January 1, 2023, the Bank regularly performed 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2023 and 2022 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 credit losses. 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.

Non-accrual Loans: 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, 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Individually evaluated loans: Effective January 1, 2023, upon the adoption of ASU 2016-13, loans that do not share similar risk characteristics with other financial assets are individually evaluated for credit losses and excluded from loan pools used within the collective evaluation of estimated credit losses. The criteria for individual evaluation may include non-accrual status, loans modified to borrowers experiencing financial difficulty, payment delinquency of 90 days or more, partial charge-off recognized, risk rated doubtful or loss, or when foreclosure of the underlying collateral is probable.

Impaired loans: Prior to January 1, 2023, a loan was considered impaired when, based on current information and events, it was 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 included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined 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 was recognized on an accrual basis unless the loan was on nonaccrual status.

Credit loss (or impairment prior to January 1, 2023) 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. 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.

Modifications of loans to borrowers experiencing financial difficulty: Effective January 1, 2023, the amendments in ASU 2022-02 eliminated the accounting guidance for troubled debt restructurings (TDRs) by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Thus, as a

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

result of adoption of this standard on January 1, 2023, rather than applying the recognition and measurement guidance for TDRs, the Bank now applies the loan refinancing and restructuring guidance codified in paragraphs 310-20-35-9 through 35-11 of the Accounting Standards Codification (ASC) to determine whether a modification results in a new loan or a continuation of an existing loan.

Modifications to borrowers experiencing financial difficulty include principal forgiveness, interest rate reductions, term extensions, other-than-insignificant payment delays and combinations thereof. Expected losses or recoveries related to loans where modifications have been granted to borrowers experiencing financial difficulty have been included in the Bank's determination of the allowance for loan losses. Upon adoption of ASU 2022-02, the Bank is no longer required to use a discounted cash flow method to measure the allowance for loan losses resulting from a modification to a borrower experiencing financial difficulty. Accordingly, the Bank now applies the same credit methodology it uses for similar loans that were not modified. Modifications on loans determined to not share risk characteristics with other loans continue to be evaluated on an individual basis.

Troubled debt restructurings: Prior to January 1, 2023, loans whose terms were modified were classified as troubled debt restructurings if the Bank granted such borrowers concessions and it was deemed that those borrowers were 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 involved a reduction in interest rate or extension of a loan's stated maturity date. Non-accrual troubled debt restructurings were restored to accrual status if principal and interest payments, under the modified terms, were current for six consecutive months after modification. Loans classified as troubled debt restructurings were initially designated as impaired.

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 Credit Losses on Loans

Effective January 1, 2023, upon the adoption of ASU 2016-13, the Bank replaced the incurred loss accounting approach with the current expected credit loss ("CECL") approach for financial instruments measured at amortized cost and other commitments to extend credit. CECL requires the immediate recognition of estimated credit losses expected to occur over the estimated

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable forecasts.

The allowance for credit losses (allowance) on loans is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for loan losses is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded loan commitments is included within "Accrued interest payable and other liabilities" on the balance sheets. The amortized cost basis of loans does not include accrued interest receivable of $10,066,953 as of December 31, 2023, which is included in "Accrued interest receivable and other assets" on the balance sheets. The "Provision for credit losses" on the statements of income is a combination of the provision for loan losses and the provision for unfunded loan commitments.

Under the CECL methodology, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. Thus, the CECL methodology incorporates a broad range of information in developing credit loss estimates. The resulting allowance is deducted from the associated amortized cost basis to reflect the net amount expected to be collected. Subsequent changes in this estimate are recorded through the provision for credit losses and the allowance. The CECL methodology could result in significant changes to both the timing and amounts of provision for credit losses and the allowance as compared to historical periods. Loans that are deemed to be uncollectable are charged off and deducted from the allowance. The provision for credit losses and recoveries on loans previously charged off are added to the allowance.

The allowance is comprised of an individually evaluated component for loans that no longer share similar risk characteristics with other loans and a pooled loans component for loans that share similar risk characteristics. We select loans for individual assessment on an ongoing basis using certain criteria such as payment performance, borrower reported and forecasted financial results, and other external factors when appropriate. We measure the current expected credit loss of an individually evaluated loan based upon the fair value of the underlying collateral if the loan is collateral-dependent or the present value of cash flows, discounted at the effective interest rate, if the loan is not collateral-dependent. A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. To the extent a loan balance exceeds the estimated collectable value, a reserve or charge-off is recorded depending upon either the certainty of the estimate of loss or the fair value of the loan’s collateral if the loan is collateral-dependent.

Our CECL methodology for the pooled loans component includes both quantitative and qualitative loss factors which are applied to our population of loans and assessed at a pool level. The quantitative CECL model estimates credit losses by applying pool-specific probability of default ("PD") and loss given default ("LGD") rates to the expected exposure at default ("EAD")

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

over the contractual life of loans. The qualitative component considers internal and external risk factors that may not be adequately assessed in the quantitative model.

The loan portfolio is segmented into five loan segments comprised of 10 loan pools (excluding Paycheck Protection Program loans, which are fully government guaranteed) based upon loan type that share similar default risk characteristics to calculate quantitative loss factors for each pool.

The Bank's loan portfolio is comprised of the following segments: construction, commercial real estate, residential real estate, commercial, and other loans. Estimated loss rates are calculated using historical performance data over a look back period starting in September 2018 through the current period. A floor PD or LGD rate is utilized for loan pools with insufficient loss history. The PD and LGD rates are applied to the EAD at the loan level based on contractual payments and estimated prepayments. The Bank uses actual historical prepayment experience from September 2018 through the current period to estimate future prepayments by loan pool.

The PDs calculated by the quantitative models are highly correlated to our internal risk ratings assigned to each loan. 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 allowance is further adjusted for the following qualitative factors:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions - including current and forecasted 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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. The reserve for unfunded loan commitments are estimated using the same PD, LGD, and prepayment rates for the quantitative credit losses and qualitative loss factors as used for the allowance for credit losses on loans. The EAD for the reserve for unfunded loan commitments is computed using expected future utilization rates of the unfunded commitments during the contractual life of the commitments based on historical usage by loan pool. The reserve for unfunded loan commitments is included in Accrued Interest Payable and Other Liabilities on the balance sheets.

Allowance for Loan Losses Prior to the Adoption of the CECL Guidance: Prior to January 1, 2023, the allowance for loan losses was measured using the incurred loss accounting approach. The allowance for loan losses (allowance) was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loan losses were charged against the allowance when management believes the collectability of the loan balance becomes unlikely. Subsequent recoveries, if any, were credited to the allowance.

The allowance for loan losses was evaluated on a regular basis by management and was 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 was inherently subjective as it required estimates that are susceptible to significant revision as more information becomes available.

The allowance consisted of a specific and general component. The specific component related to loans that were classified as impaired. For loans classified as impaired, an allowance was established when the discounted cash flows (or observable market price or collateral value) of the impaired loan was lower than the carrying value of that loan. The general component covered loans by loan portfolio segments. These loan portfolio segments were evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative factors. The Bank utilized a third party vendor to calculate the quantitative portion of the general allowance based on a methodology that used probability of default ("PD") and loss given default ("LGD") factors to arrive at a loss rate for each risk grade and for each loan portfolio segment. The PD and LGD factors were based on average industry experience from the most recent 20 quarters. Loss rates were then applied to outstanding loan balances to arrive at the quantitative portion of the allowance. The allowance was further adjusted for qualitative factors.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. 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.

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

10. 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, 2023 and 2022 was $892,289 and $928,588, 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, 2023 and 2022, the Bank was not required to pledge cash collateral.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. 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, 2023 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 settlement. The Bank considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments. As of December 31, 2023, 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 2020 and thereafter and California income tax examinations for years beginning in 2019 and thereafter.

12. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. 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, 2023 and 2022, options to purchase 2,482 shares and 0 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.

	2023			2022		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS						
Net income available to common shareholders	$ 43,966,127	9,191,664	$ 4.78	$ 48,559,215	9,095,159	$ 5.34
Effect of dilutive shares	-	46,209	(0.02)	-	99,222	(0.06)
Diluted EPS	$ 43,966,127	9,237,873	$ 4.76	$ 48,559,215	9,194,381	$ 5.28

14. Reclassification

The Provision for unfunded loan commitments in the prior year's financial statements was reclassified from "Other expenses" to "Provision for credit losses" on the statements of income to conform to the current year presentation with no effect on previously reported net income or shareholders' equity.

15. Recent Accounting Pronouncements

New Accounting Pronouncements Adopted in 2023:

On January 1, 2023, the Bank adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, as well as other commitments to extend credit. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities which requires entities to record an allowance when recognizing credit losses for available-for-sale

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

securities, rather than as a write-down on available-for-sale securities management does not intend to sell or believes that it is more likely than not will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Bank recorded a net increase to retained earnings of $2,700,721, net of taxes and a net decrease to the allowance for credit losses of $3,830,288 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The net decrease to the allowance for credit losses included $55,000 for held-to-maturity securities. There was no cumulative effect adjustment to the allowance for unfunded loan commitments or for available-for-sale securities at adoption. The Bank elected as a practical expedient to account for accrued interest receivable separately from the amortized cost of loans and investment securities. Accrued interest receivable is included in "Accrued interest receivable and other assets" on the balance sheets.

On January 1, 2023, the Bank adopted 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, and amends the guidance on vintage disclosures. The provisions of ASU 2022-02 will take effect when an entity adopts Topic 326. The adoption of this ASU did not have a material impact on the Bank's financial statements.

Accounting Standards Issued but not yet Adopted:

In December 2023, the FASB issued guidance within ASU 2023-09, Income Taxes (Topic 740). The amendments in this update are intended to increase visibility into various income tax components that affect the reconciliation of the effective tax rate to the statutory rate, as well as the qualitative and quantitative aspects of those components. As a public business entity (PBE) the Bank will be required to disclose on an annual basis, specific categories in the rate reconciliation and provide additional information for reconciling items that meet or exceed a five percent threshold (computed by multiplying pretax income by the applicable statutory income tax rate) and include disclosure of state and local jurisdictions that make up the majority of the state and local income tax category in the rate reconciliation. Additional disclosure items include disaggregation of income taxes paid to and income tax expense from federal, state, and foreign jurisdictions as well as disaggregation of income taxes paid to individual jurisdictions in which income taxes paid are equal to or greater than five percent of total income taxes paid. The amendments in this update are effective for PBEs for fiscal years beginning after December 15, 2024 and may be applied on a prospective or retrospective basis. The Bank is currently evaluating the impact these amendments will have on its financial statements.

NOTE B - INVESTMENT SECURITIES

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

	2023			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities available-for-sale				
U.S. SBA loan pool securities	$ 92,667,794	$ 168,153	$ (1,610,356)	$ 91,225,591
Residential mortgage-backed securities	467,339,567	-	(82,746,569)	384,592,998
Commercial mortgage-backed securities	32,030,268	16,877	(2,769,901)	29,277,244
Corporate bonds	16,250,000	-	(2,092,811)	14,157,189
Municipal securities	99,176,417	48,650	(7,276,314)	91,948,753
Total securities available-for-sale	$ 707,464,046	$ 233,680	$ (96,495,951)	$ 611,201,775
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities held-to-maturity				
Residential mortgage-backed securities	$ 158,394,564	$ -	$ (30,687,100)	$ 127,707,464
Commercial mortgage-backed securities	20,590,311	-	(3,951,305)	16,639,006
Municipal securities	390,183,588	90,728	(59,724,387)	330,549,929
Total securities held-to-maturity	$ 569,168,463	$ 90,728	$ (94,362,792)	$ 474,896,399

	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

NOTE B - INVESTMENT SECURITIES – Continued

During the year ended December 31, 2023, the Bank did not have investment securities transferred from available-for-sale to held-to-maturity. 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. The amortized cost of securities transferred from available-for-sale to held-to-maturity was $428,154,301 and $441,742,575 at December 31, 2023 and 2022, respectively. The remaining unamortized unrealized loss was $4,170,197 and $5,130,549 at December 31, 2023 and 2022, respectively.

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

	2023	2022
Gains from sales of securities	$ -	$ 123,164
Losses from sales of securities	(1,070,263)	(198,338)
Net losses on sales of securities	$ (1,070,263)	$ (75,174)

The amortized cost and estimated fair value of investment securities at December 31, 2023, 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	$ 60,878,180	$ 53,760,632	$ 17,807,801	$ 15,454,117
Due in one to five years	195,623,193	171,136,604	59,452,055	49,865,673
Due in five to ten years	173,882,609	148,406,986	72,015,895	59,291,662
Due after ten years	277,080,064	237,897,553	419,892,712	350,284,947
Total	$ 707,464,046	$ 611,201,775	$ 569,168,463	$ 474,896,399

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 $1,060,373,305 and $185,454,441 at December 31, 2023 and 2022, respectively.

The line of credit for overnight borrowings with the Federal Reserve Bank is collateralized with securities in the amount of $1,009,098,358 and $89,767,474 at December 31, 2023 and 2022, 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 $0 and $35,663,878 at December 31, 2023 and 2022, respectively.

As of December 31, 2023, the Bank had not recorded an allowance for credit losses on available-for-sale securities. The Bank does not intend to sell these securities and has determined based upon available evidence that it is more likely than not that the Bank will not be required to sell each security before the expected recovery of its amortized cost basis. The Bank does not consider unrealized losses on such securities to be attributable to credit-related factors, as the unrealized losses have occurred as a result of changes in non-credit related factors such as interest rates.

Credit losses on held-to-maturity ("HTM") securities are recorded at the time of purchase or when the Bank designates securities as HTM. Credit losses on HTM securities are representative of current expected credit losses that may be incurred over the life of the investment and reevaluated each reporting period. The residential and commercial mortgage-backed securities are considered to have no risk of loss as they are either explicitly or implicitly guaranteed by the U.S. government or government sponsored entities. Municipal securities are evaluated for credit losses. On January 1, 2023, upon the adoption of ASU 2016-13, an allowance for credit losses on HTM securities of $55,000 was recognized. There was no provision for credit losses, write-offs or recoveries on HTM securities for the year ended December 31, 2023. The allowance for credit losses on HTM securities was $55,000 at December 31, 2023.

NOTE B - INVESTMENT SECURITIES – Continued

The Bank uses S&P and Moody's rating as the credit quality indicators for its held-to-maturity securities. The following table presents securities held-to-maturity portfolio by the lowest available credit rating at December 31:

2023	AAA	AA+	AA	AA-	A+	A	A-	NR	Total
Securities held-to-maturity									
Residential mortgage-backed securities	$ -	$158,394,564	$ -	$ -	$ -	$ -	$ -	$ -	$158,394,564
Commercial mortgage-backed securities	-	20,590,311	-	-	-	-	-	-	20,590,311
Municipal securities	94,106,233	99,245,804	108,959,853	72,676,484	9,516,762	3,726,099	1,952,353	-	390,183,588
Total securities held-to-maturity	$ 94,106,233	$278,230,679	$108,959,853	$ 72,676,484	$ 9,516,762	$ 3,726,099	$ 1,952,353	$ -	$569,168,463

2022	AAA	AA+	AA	AA-	A+	A	A-	NR	Total
Securities held-to-maturity									
Residential mortgage-backed securities	$ -	$169,246,042	$ -	$ -	$ -	$ -	$ -	$ -	$169,246,042
Commercial mortgage-backed securities	-	21,278,775	-	-	-	-	-	-	21,278,775
Municipal securities	93,078,113	89,585,973	111,254,230	69,156,462	21,419,352	8,320,536	580,686	823,635	394,218,987
Total securities held-to-maturity	$ 93,078,113	$280,110,790	$111,254,230	$ 69,156,462	$ 21,419,352	$ 8,320,536	$ 580,686	$ 823,635	$584,743,804

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:

	2023					
	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	$ 1,935,498	$ (22,627)	61	$ 57,469,969	$ (1,587,729)
Residential mortgage-backed securities	-	-	-	156	384,592,998	(82,746,569)
Commercial mortgage-backed securities	-	-	-	17	27,337,204	(2,769,901)
Corporate bonds	-	-	-	9	14,157,189	(2,092,811)
Municipal securities	-	-	-	95	90,381,104	(7,276,314)
Total securities available-for-sale	3	$ 1,935,498	$ (22,627)	338	$ 573,938,464	$ (96,473,324)
Securities held-to-maturity						
Residential mortgage-backed securities	-	$ -	$ -	42	$ 127,707,465	$ (30,687,100)
Commercial mortgage-backed securities	-	-	-	7	16,639,006	(3,951,305)
Municipal securities	7	27,354,299	(322,008)	286	293,641,495	(59,402,379)
Total securities held-to-maturity	7	27,354,299	(322,008)	335	437,987,966	(94,040,784)
Total securities in an unrealized loss position	10	$ 29,289,797	$ (344,635)	673	$ 1,011,926,430	$ (190,514,108)

	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 bonds	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)

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following is a summary of loans outstanding by portfolio segment at December 31:

	2023	2022
Construction loans	49,811,294	51,408,855
Commercial real estate loans	1,940,611,160	1,789,549,554
Residential real estate loans	127,183,928	104,143,145
Commercial loans	443,343,671	468,086,339
Other	18,689,844	27,013,685
Loans receivable	2,579,639,897	2,440,201,578
Allowance for credit losses	(28,460,178)	(29,635,288)
Loans receivable, net	2,551,179,719	$2,410,566,290

Loans receivable includes net deferred loan fees of $3,460,619 and $3,329,573 as of December 31, 2023 and 2022, 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, 2023 and 2022, most of the Bank's loans secured by real estate were collateralized by properties in Southern California.

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, 2023, PPP loans had an outstanding balance of $1,709,653 that includes net deferred loan fees of $86,930 and included in Commercial loans. As of December 31, 2022, PPP loans had an outstanding balance of $9,723,838 that includes net deferred loans fees of $218,587. For the years ended December 31, 2023 and 2022, net loan fees for PPP loans of $75,289 and $3,584,166 were recognized in interest income, respectively. During the years ended December 31, 2023 and 2022, $4,002,597 and $131,084,927 of PPP loans have been forgiven, respectively.

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

Management 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 loans by portfolio segment summarized by aging categories of performing loans and non-accrual loans as of December 31:

	2023						
	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	$ -	$ -	$ -	$ -	$ 49,811,294	$ 49,811,294	$ -
Commercial real estate	-	-	-	-	1,940,611,160	1,940,611,160	-
Residential real estate	-	-	-	-	126,439,418	127,183,928	744,383
Commercial	21,834	-	-	21,834	436,205,618	443,343,671	7,172,554
Other	-	-	-	-	18,689,844	18,689,844	-
	$ 21,834	$ -	$ -	$ 21,834	$2,571,757,334	$ 2,579,639,897	$ 7,916,937

	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

The following table presents the loans by portfolio segment 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:

	2023					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction	$ 47,926,424	$ 853,135	$ 1,031,735	$ -	$ -	$ 49,811,294
Commercial real estate	1,835,288,560	87,042,812	18,279,788	-	-	1,940,611,160
Residential real estate	121,602,545	4,837,000	744,383	-	-	127,183,928
Commercial	396,964,873	39,204,788	7,174,010	-	-	443,343,671
Other	18,689,844	-	-	-	-	18,689,844
	$ 2,420,472,246	$ 131,937,735	$ 27,229,916	$ -	$ -	$ 2,579,639,897

	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

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

The following table presents the loans by portfolio segment summarized by credit quality indicator (internal risk rating system) and by year of origination as of December 31:

2023

Amortized Cost Basis	Term Loans Origination Year						
December 31, 2023	2023	2022	2021	Prior	Revolving loans	Revolving Loans converted to term loans	Total
Construction loans:							
Pass	$ 8,966,914	$ 37,263,727	$ -	$ 1,695,783	$ -	$ -	$ 47,926,424
Special Mention	-	720,522	132,613	-	-	-	853,135
Substandard	-	-	-	1,031,735	-	-	1,031,735
Doubtful & Loss	-	-	-	-	-	-	-
Total Construction loans:	$ 8,966,914	$ 37,984,249	$ 132,613	$ 2,727,518	$ -	$ -	$ 49,811,294
Current YTD Period:							
Gross Charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans:							
Pass	$ 236,196,239	$ 517,412,545	$ 413,480,218	$ 591,261,815	$ 76,937,743	$ -	$ 1,835,288,560
Special Mention	1,857,949	30,719,899	4,689,205	42,606,887	7,168,872	-	87,042,812
Substandard	-	10,508,097	-	3,042,872	4,728,819	-	18,279,788
Doubtful & Loss	-	-	-	-	-	-	-
Total Commercial real estate loans:	$ 238,054,188	$ 558,640,541	$ 418,169,423	$ 636,911,574	$ 88,835,434	$ -	$ 1,940,611,160
Current YTD Period:							
Gross Charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential real estate loans:							
Pass	$ 15,532,010	$ 14,910,383	$ 11,508,664	$ 10,230,589	$ 69,420,899	$ -	$ 121,602,545
Special Mention	-	-	-	-	4,837,000	-	4,837,000
Substandard	-	-	-	-	744,383	-	744,383
Doubtful & Loss	-	-	-	-	-	-	-
Total Residential real estate loans:	$ 15,532,010	$ 14,910,383	$ 11,508,664	$ 10,230,589	$ 75,002,282	$ -	$ 127,183,928
Current YTD Period:							
Gross Charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial loans:							
Pass	$ 108,788,784	$ 60,931,654	$ 58,018,619	$ 33,034,849	$ 136,190,967	$ -	$ 396,964,873
Special Mention	4,841,866	14,113,886	858,877	1,790,463	17,599,696	-	39,204,788
Substandard	1,142	2,242,068	-	1,731,737	3,199,063	-	7,174,010
Doubtful & Loss	-	-	-	-	-	-	-
Total Commercial loans:	$ 113,631,792	$ 77,287,608	$ 58,877,496	$ 36,557,049	$ 156,989,726	$ -	$ 443,343,671
Current YTD Period:							
Gross Charge-offs	$ 24,538	$ -	$ -	$ 169,037	$ -	$ -	$ 193,575
Other:							
Pass	$ 2,306,227	$ 4,845,770	$ 4,204,288	$ 537,144	$ 6,796,415	$ -	$ 18,689,844
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-
Total Other loans:	$ 2,306,227	$ 4,845,770	$ 4,204,288	$ 537,144	$ 6,796,415	$ -	$ 18,689,844
Current YTD Period:							
Gross Charge-offs	$ -	$ 200,000	$ -	$ -	$ -	$ -	$ 200,000
Total Loans Receivable, net:							
Pass	$ 371,790,174	$ 635,364,079	$ 487,211,789	$ 636,760,180	$ 289,346,024	$ -	$ 2,420,472,246
Special Mention	6,699,815	45,554,307	5,680,695	44,397,350	29,605,568	-	131,937,735
Substandard	1,142	12,750,165	-	5,806,344	8,672,265	-	27,229,916
Doubtful & Loss	-	-	-	-	-	-	-
Total Other loans:	$ 378,491,131	$ 693,668,551	$ 492,892,484	$ 686,963,874	$ 327,623,857	$ -	$ 2,579,639,897
Current YTD Period:							
Gross Charge-offs	$ 24,538	$ 200,000	$ -	$ 169,037	$ -	$ -	$ 393,575

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

The allowance for credit losses is the combination of allowance for loan losses and the reserve for unfunded loan commitments. The reserve for unfunded loan commitments is included within "accrued interest payable and other liabilities" on the balance sheet.

The following table presents a summary of the activity in the allowance for loan losses and reserve for unfunded loan commitments as of December 31:

	2023		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
Balance, beginning of year	$ 29,635,288	$ 1,250,000	$ 30,885,288
Cumalative effect of change in accounting principle - CECL	(3,885,288)	-	(3,885,288)
Balance, January 1, 2023	25,750,000	1,250,000	27,000,000
Charge-offs	(393,575)	-	(393,575)
Recoveries	49,753	-	49,753
Net recoveries (charge-offs)	(343,822)	-	(343,822)
Provision for credit losses	3,054,000	344,000	3,398,000
Balance, end of year	$ 28,460,178	$ 1,594,000	$ 30,054,178

	2022		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
Balance, beginning of year	$ 25,061,555	$ 1,254,000	$ 26,315,555
Charge-offs	(22,860)	-	(22,860)
Recoveries	81,593	-	81,593
Net recoveries (charge-offs)	$ 58,733	$ -	$ 58,733
(Reversal of) provision for credit losses	4,515,000	(4,000)	4,511,000
Balance, end of year	$ 29,635,288	$ 1,250,000	$ 30,885,288

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

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

	2023					
	Construction	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
Allowance for Loan Losses:						
Balance, beginning of year	$ 1,028,753	$ 20,552,815	$ 697,869	$ 6,919,151	$ 436,700	$ 29,635,288
Cumulative effect of change in accounting principle - CECL	(81,123)	(2,024,644)	69,916	(1,770,700)	(78,737)	(3,885,288)
Balance, January 1, 2023	947,630	18,528,171	767,785	5,148,451	357,963	25,750,000
Charge-offs	-	-	-	(193,575)	(200,000)	(393,575)
Recoveries	-	-	-	21,628	28,125	49,753
Net recoveries (charge-offs)	-	-	-	(171,947)	(171,875)	(343,822)
(Reversal of) provision for credit losses	(42,378)	1,532,296	374,184	1,049,839	140,059	3,054,000
Balance, end of year	$ 905,252	$ 20,060,467	$ 1,141,969	$ 6,026,343	$ 326,147	$ 28,460,178
Ending Allowance by Evaluation Methodology:						
Collectively evaluated	$ 905,252	$ 20,060,467	$ 1,043,562	$ 5,533,331	$ 326,147	$ 27,868,759
Individually evaluated	-	-	98,407	493,012	-	591,419
Total ending allowance balance	$ 905,252	$ 20,060,467	$ 1,141,969	$ 6,026,343	$ 326,147	$ 28,460,178
Ending Loans by Evaluation Methodology:						
Collectively evaluated	$ 48,778,086	$ 1,922,325,976	$126,439,418	$436,169,296	$ 18,689,844	$ 2,552,402,620
Individually evaluated	1,033,208	18,285,184	744,510	7,174,375	-	27,237,277
Total ending loan balance	$ 49,811,294	$ 1,940,611,160	$127,183,928	$443,343,671	$ 18,689,844	$ 2,579,639,897

	2022					
	Construction	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
Allowance for Loan Losses:						
Balance, beginning of year	$ 918,216	$ 17,107,389	$ 611,270	$ 6,140,823	$ 283,857	$ 25,061,555
Charge-offs	-	-	-	-	(22,860)	(22,860)
Recoveries	-	-	-	68,470	13,123	81,593
Net recoveries (charge-offs)	-	-	-	68,470	(9,737)	58,733
Provision for credit losses	110,537	3,445,426	86,599	709,858	162,580	4,515,000
Balance, end of year	$ 1,028,753	$ 20,552,815	$ 697,869	$ 6,919,151	$ 436,700	$ 29,635,288
Ending Allowance by Evaluation Methodology:						
Collectively evaluated for impairment	$ 1,028,753	$ 20,552,815	$ 697,869	$ 6,432,078	$ 436,700	$ 29,148,215
Individually evaluated for impairment	-	-	-	487,073	-	487,073
Total ending allowance balance	$ 1,028,753	$ 20,552,815	$ 697,869	$ 6,432,078	$ 436,700	$ 29,148,215
Ending Loans by Evaluation Methodology:						
Collectively evaluated for impairment	$ 51,408,855	$ 1,782,494,814	$104,143,145	$461,159,520	$ 27,013,685	$ 2,426,220,019
Individually evaluated for impairment	-	7,054,740	-	6,926,819	-	13,981,559
Total ending loan balance	$ 51,408,855	$ 1,789,549,554	$104,143,145	$468,086,339	$ 27,013,685	$ 2,440,201,578

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

The following tables present information related to individually evaluated loans, or impaired loans prior to the adoption of ASC 326, by loan portfolio segment with and without allowance recorded as of and for the years ended December 31:

	2023					
	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:						
Construction	$ 1,033,208	$ 1,033,208	$ -	$ 1,049,163	$ 56,006	$ -
Commercial real estate	18,285,184	18,285,184	-	18,318,952	662,755	-
With an allowance recorded:						
Commercial	$ 7,696,975	$ 7,174,375	$ 493,012	$ 8,508,940	$ 296,231	$ -
Residential real estate	750,000	744,510	98,407	539,588	32,682	-
Total	$ 27,765,367	$ 27,237,277	$ 591,419	$ 28,416,643	$ 1,047,674	$ -

	2022					
	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	$ 14,176,022	$ 450,301	$ -

On January 1, 2023, the Bank adopted 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. There was one restructured commercial loan secured by business assets involving a borrower experiencing financial difficulty at December 31, 2023, with an outstanding balance of $230,743. There were no loans modified in a TDR during the year ended December 31, 2022.

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, 2023 and 2022, 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:

	2023	2022
Furniture and equipment	$ 7,435,820	$ 6,985,149
Leasehold improvements	6,601,443	6,523,993
Total	14,037,263	13,509,142
Less: Accumulated depreciation and amortization	(9,448,299)	(7,904,466)
	$ 4,588,964	$ 5,604,676

Depreciation and amortization expenses were $1,560,219 and $1,772,815 for the years ended December 31, 2023 and 2022, 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 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, 2023, operating lease right-of-use ("ROU") assets and related liabilities were $8,338,054 and $13,128,545, respectively. As of December 31, 2022, operating lease right-of-use ("ROU") assets and related liabilities were $7,764,966 and $13,122,024, 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, 2023 and 2022. During the year ended December 31, 2023, the Bank had no new leases and amended two leases to expand the office and extend the term in February 2023 and October 2023. 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. The Bank reassessed the ROU asset and liability related to these new or amended leases. The total lease cost was $1,915,865 and $1,811,604 for the years ended December 31, 2023 and 2022, respectively.

The table below summarizes the maturity of remaining lease liabilities as of December 31, 2023:

2024	$ 2,086,609
2025	2,259,783
2026	2,320,817
2027	2,248,139
2028	2,112,464
Thereafter	3,325,482
Total undiscounted lease payments	14,353,294
Less: imputed interest	(1,224,749)
Net lease liabilities	$ 13,128,545

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

	2023	2022
Cash paid for amounts included in the measurement of lease liabilites		
Operating cash outflows from operating leases	$ 2,480,971	$ 2,305,759
Right-of-use assets obtained in exchange for new operating lease liabilites	2,515,088	1,130,813

NOTE E – LEASES - Continued

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

	2023	2022
Operating lease weighted average remaining lease term (years)	6.11	6.48
Operating lease weighted average discount rate	3.44%	2.91%

As of December 31, 2023, the Bank has entered into amendments for three existing operating lease commitments that have not yet commenced.

NOTE F - DEPOSITS

At December 31, 2023 and 2022, the Bank had certificates of deposit with balances of $250,000 or more of $192,967,432 and $37,621,567, respectively.

At December 31, 2023, the scheduled maturities for certificates of deposits were as follows:

Scheduled maturies in:	
2024	$ 262,652,593
2025	1,659,013
Total	$ 264,311,606

The Bank is a participant in the IntraFi Network, a network that offers deposit placement services, including CDARS and ICS reciprocal deposits, whereby deposits are divided into amounts under the standard FDIC insurance maximum and allocated among other banks that are part of IntraFi's network of banks. The balance of reciprocal deposits was $117,922,835 at December 31, 2023.

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

Federal Home Loan Bank ("FHLB") advances at December 31, 2023 and 2022 were $55,000,000 and $155,000,000, respectively. The overnight borrowing was at a rate of 5.70% and 4.65% at December 31, 2023 and 2022, respectively. Pursuant to agreements with the FHLB, any advances are collateralized by certain loans and investment securities. The carrying value of the investment securities pledged were $0 and $39,616,274 at December 31, 2023 and 2022, respectively.

In addition, the Bank is required to purchase FHLB common stock to support its FHLB advances. FHLB stock is carried at cost as it does not have a readily determinable fair value. At December 31, 2023 and 2022, the Bank had $15,000,000 of FHLB common stock.

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

The Bank has established a Standard Credit program with FHLB and has $1,402,256,992 of its Real Estate loan portfolio pledged as collateral. This program gives the Bank a borrowing capacity of $762,827,803 as of December 31, 2023. The Bank has $0 of borrowing capacity supported by investment securities pledged with FHLB. To reach a total borrowing capacity of $762,827,803 collateralized by the current level of pledged loans and securities, the Bank would be required to purchase additional FHLB stock.

Other Borrowings represent Federal funds purchased on an overnight basis. The Bank has a line of credit commitment with two correspondent banks and the Federal Reserve Bank for overnight borrowings up to $341,898,273 and $179,767,474 of which $0 and $6,500,000 was outstanding at December 31, 2023 and 2022, respectively.

The Bank has the ability to borrow from the Bank Term Funding ("BTFP") Program which was established in March 2023. Borrowings under the BTFP are for periods up to one year in length, with interest rates based on the one-year overnight index swap rate plus a spread of 10 basis points. The BTFP borrowings are collateralized by eligible investment securities valued at par. At December 31, 2023, the borrowing capacity under this arrangement was $722,200,086. There were no amounts outstanding at December 31, 2023 under the BTFP Program.

NOTE H - INCOME TAXES

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

	2023	2022
Current:		
Federal	$ 10,996,869	$ 12,508,825
State	6,768,353	7,853,628
	17,765,222	20,362,453
Deferred:		
Federal	(688,047)	(1,727,363)
State	(328,858)	(672,234)
	(1,016,905)	(2,399,597)
Total income tax expense	$ 16,748,317	$ 17,962,856

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:

	2023	2022
Deferred tax assets:		
Allowance for credit losses on loans	$ 8,373,900	$ 8,739,567
Deferred lease liability	3,862,840	3,869,738
Accrued deferred compensation	4,436,346	4,414,192
Unrealized net loss on investment securities	29,691,453	34,076,467
State taxes	1,422,617	1,608,136
Accrued post-retirement health benefits	631,744	657,722
Stock-based compensation costs	903,585	782,772
Allowance for unfunded commitments	469,006	368,630
Other	1,018,564	830,352
Total deferred tax assets	$ 50,810,055	$ 55,347,576
Deferred tax liabilities:		
Depreciation and amortization	$ (700,831)	$ (983,751)
Lease right-of-use assets	(2,453,324)	(2,289,920)
Prepaid expenses and deferred loan costs	(469,930)	(390,257)
	$ (3,624,085)	$ (3,663,928)
Net deferred tax assets	$ 47,185,970	$ 51,683,648

The income tax provisions for 2023 and 2022 differ from the amounts computed by applying the Federal statutory rate of 21% for 2023 and 2022, as follows:

	2023	2022
Federal statutory income tax rate	$ 12,750,033	$ 13,969,635
State taxes, net of federal benefit	5,133,071	5,647,995
Tax exempt interest, net of interest disallowed	(1,058,898)	(1,778,961)
Other	(75,889)	124,187
Effective income tax expense	$ 16,748,317	$ 17,962,856

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 reporting period based on various factors, it is possible that an asset or liability may be classified differently from one reporting period to the next. 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.

Individually evaluated loans (impaired loans prior to adoption of ASC 326): A loan is individually evaluated for expected credit losses when it is probably that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Individually evaluated loans are measured based on the fair value of the underlying collateral or the discounted expected future cashflows and are classified as Level 3 assets. The following methods are used to determine the fair value of individually evaluated 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) When the repayment of an individually evaluated loan is dependent on the sale of the collateral, the fair value of the loan is determined 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, 2023 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	$ -	$ 91,225,591	$ -	$ 91,225,591
Residential mortgage-backed securities	-	384,592,998	-	384,592,998
Commercial mortgage-backed securities	-	29,277,244	-	29,277,244
Corporate securities	-	14,157,189	-	14,157,189
Municipal securities	-	91,948,753	-	91,948,753
Total recurring	$ -	$ 611,201,775	$ -	$ 611,201,775

	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

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, 2023 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated loans:				
Construction	$ -	$ -	$ 1,033,208	$ 1,033,208
Commercial real estate	-	-	18,285,184	18,285,184
Residential real estate	-	-	646,103	646,103
Commercial	-	-	6,681,363	6,681,363
Total non-recurring	$ -	$ -	$ 26,645,858	$ 26,645,858

	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

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:

	2023				
	Fair Value	Valuation Technique(s)	Unobservable input(s)	Range of input(s)	Weighted Average
Assets:					
Individually evaluated loans	$ 19,853,929	Fair value of collateral	Discount rate	0% to 10%	8.84%
Individually evaluated loans	6,791,929	Discounted cash flows	Discount rate	10%	10.00%
Total individually evaluated loans:	$ 26,645,858				

	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				

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, 2023 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	$ 43,157,899	$ 43,157,899	$ -	$ -	$ 43,157,899
Securities held-to-maturity	569,113,463	-	474,896,399	-	474,896,399
Loans receivable, net	2,551,179,719	-	-	2,403,233,854	2,403,233,854
Accrued interest receivable	17,202,087	-	17,202,087	-	17,202,087
Financial Liabilities:					
Non-interest bearing demand deposits	1,699,560,015	$ -	$ 1,699,560,015	$ -	$ 1,699,560,015
Interest bearing transaction accounts	388,152,149	-	388,152,149	-	388,152,149
Money market and savings deposits	1,145,388,949	-	1,145,388,949	-	1,145,388,949
Certificates of deposit	264,311,606	-	264,311,606	-	264,311,606
Accrued interest payable	2,198,871	-	2,198,871	-	2,198,871

		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

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, 2023, 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, 2023, 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, 2023 and 2022 ($ in thousands).

	Actual		For capital adequacy purposes		To be "well capitalized" under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023:						
Total capital (to risk weighted assets)	$ 414,689	12.37%	$ 268,214	8.00%	$ 335,268	10.00%
Tier I capital (to risk weighted assets)	$ 384,580	11.47%	$ 201,161	6.00%	$ 268,214	8.00%
Tier I leverage (to average assets)	$ 384,580	9.64%	$ 159,562	4.00%	$ 199,453	5.00%
Common Equity Tier I (to risk weighted assets)	$ 384,580	11.47%	$ 150,871	4.50%	$ 217,924	6.50%

	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%

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 $855,139 and $822,984 to the plan during the years ended December 31, 2023 and 2022, 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, 2023 and 2022, the cash surrender value of the BOLI and COLI policies was $28,897,714 and $27,668,472, respectively, and is recorded as Bank/corporate owned life insurance on the balance sheets. At December 31, 2023, 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, 2023, 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 a retired founder 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 5,627 shares were issued as distributions of restricted stock from the Plan for the years ended December 31, 2023 and 2022, respectively.

The deferred compensation obligation related to the Plan was $10,174,188 and $9,882,857 at December 31, 2023 and 2022, respectively, and is included in accrued interest and other liabilities. Compensation deferral elections by the participant and contributions from the Bank, if any, 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 $916,456 and $1,084,581 for the years ended December 31, 2023 and 2022, respectively. The fair value of the participants' measurement investment funds, excluding the ABB Stock Unit Measurement Fund, increased by $1,072,879 and decreased by $568,281 for the year ended December 31, 2023 and 2022, respectively. The net change 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, 2023 and 2022, 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 2023 and 2022.

The Bank's pre-tax compensation expense for incentive stock options was $0 and $332 for the years ended December 31, 2023 and 2022, respectively.

NOTE M - STOCK-BASED COMPENSATION PLANS – Continued

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

	2023	
Stock Options:	Shares	Weighted average exercise price
Outstanding, beginning of period	26,853	$ 20.25
Granted	-	-
Exercised	(23,417)	18.55
Forfeited or expired	(605)	32.85
Outstanding, end of period	2,831	$ 31.58
Options exercisable at year end	2,831	$ 31.58

	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

Total intrinsic value of options exercised was $281,014 and $1,461,363 for the years ended December 31, 2023 and 2022, respectively.

NOTE M - STOCK-BASED COMPENSATION PLANS - Continued

The following information applies to options outstanding at December 31:

	2023							
	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		
$18.53 - $32.85	639	0.50	$	18.53	639	$	18.53	
$35.24 - $36.22	2,192	3.67		35.39	2,192		35.39	
	2,831	2.96	$	31.58	2,831	$	31.58	
Aggregate intrinsic value	$ 12,528				$ 12,528			

	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		

Aggregate intrinsic value represents the difference between the Bank's closing stock price on the last trading day of the period, which was $35.98 and $39.80 as of December 31, 2023 and 2022, respectively, and the exercise price multiplied by the number of options outstanding or exercisable.

For the years ended December 31, 2023 and 2022, the total grant date fair value of options vested was $0 and $1,309, respectively. As of December 31, 2023 and 2022, the Bank had no 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 193,475 and 291,192 shares were available for future awards as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, a total of 627,900 and 530,183 shares, respectively, have been issued since the inception of the Plan. The Bank granted 97,717 and 70,060 Restricted Stock Awards/Units to employees and directors in 2023 and 2022, 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 2023 and 2022, 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 $2,512,257 and $2,785,326 on restricted stock awards/units during the year ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the Bank had $5,006,682 and $4,677,846, 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 3.1 years.

NOTE M - STOCK-BASED COMPENSATION PLANS - Continued

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

	2023	
Restricted Stock:	Shares	Weighted average grant price
Unvested, beginning of period	193,734	$ 35.43
Granted	97,717	35.19
Vested	(71,312)	34.80
Cancelled and forfeited	(16,482)	36.23
Unvested, end of period	203,657	$ 35.47

	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

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.

At December 31, the following financial instruments were:

	2023	2022
Loan commitments to extend credit	$ 1,252,732,988	$ 1,100,620,236
Commercial letters of credit	749,580	1,055,410
Standby letters of credit	43,178,043	38,458,975

As of December 31, 2023 and 2022, the Bank established a reserve for estimated losses on off balance sheet commitments of $1,594,000 and $1,250,000 respectively. These balances are included in other liabilities on the balance sheet.

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, 2023, 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 2023 and 2022, 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, 2023 and 2022 are $11,346,224 and $12,025,693, respectively. Deposits from related parties held by the Bank at December 31, 2023 and 2022 amounted to $3,303,691 and $6,200,440, respectively.

The Bank has a liability for postretirement health benefits of $2,147,094 and $2,230,292 at December 31, 2023 and 2022, 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:

	2023	2022
Noninterest income		
Revenue from contracts with customers		
Customer analysis charges	$ 3,675,925	$ 3,859,364
Other deposit fees	220,093	178,596
Foreign currency exchange fees	950,201	768,500
Other international fees	618,868	592,350
Credit Card / Interchange fees	1,070,643	788,695
Other sources of non-interest income [(a)]	2,309,115	536,658
Total noninterest income	$ 8,844,845	$ 6,724,163

(a) Not within the scope of ASC 606

NOTE Q - SUBSEQUENT EVENTS

The Bank evaluated subsequent events through March 28, 2024, the date the financial statements were available to be issued.

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HEADQUARTERS

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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.