



2025

Annual Shareholder Report





Dear Shareholders,

The year of 2025 is one of outstanding performance, and can be summarized in the following categories: increasing margins, consistent growth, and capital management. Our margins have been increasing steadily for the last six (6) quarters, fueled by an ever improving balance sheet. Our balance sheet has been repricing over the last two to three years by at least 12% to 15% per year. These changes come from three areas; our new business production, loan and bond repricing and a reduction in liability pricing over time. Going forward our net interest margin expansion will continue but most likely not at the same pace as it has increased in the past year and half. These positive trends for 2025 resulted in a record net profit for the bank of \$54MM compared to \$43MM in 2024, an increase of 25% which is tremendous.

Additionally, we passed a huge milestone of \$3 billion in total loans outstanding, this achievement took over 27 years of consistent conservative underwriting, which is testament to our superior lending team. For the year 2025 our loans increased 10.7% over 2024.

Futhermore, and of equal importance, our deposits were up by 8.5% year over year and these numbers are superior to our peers. We celebrated the opening of two new Loan Production Offices in San Diego, and Downtown Riverside, each led by long term team members. Promoting these two individuals from Relationship Manager to Regional Vice Presidents punctuates our commitment to expansion in strategic markets and the longevity of our culture.

2025 is certainly a year of outstanding performance, and from a macro standpoint reflects our consistency since inception of the bank. This consistency is centered in our basic philosophy of 1) Finding the right clients to partner with 2) Always striving to be a strong credit shop 3) Hiring the very best employees 4) Maintaining a culture of responsibility, common sense, and thoughtfulness. These have been our guiding light since the beginning and will always be our forefront.

These numbers could not have been achieved without our world-class clients and excellent staff, which I would like to thank.

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

CORPORATE PROFILE

American Business Bank (ABB) is headquartered in Los Angeles, California. American Business Bank is traded on OTCQX Markets under the symbol “AMBZ”.

American Business Bank was founded in September 1998 to provide “high touch” banking services to small to medium size businesses in Southern California. ABB offers its banking services to closely held businesses with typically \$10-\$200 million in revenue.

In twenty-seven years, the bank has grown organically to approximately \$4.4 billion in total assets. Currently 42 relationship officers serve the needs of over 2,200 clients.

American Business Bank is headquartered in downtown Los Angeles and offers a wide range of financial services to the business marketplace. Clients include wholesalers, manufacturers, service businesses, professionals, and non-profits. ABB has nine Loan Production Offices in strategic locations including: North Orange County in Anaheim, Orange County in Irvine, South Bay in Torrance, San Fernando Valley in Woodland Hills, Southern Inland Empire in Corona, Inland Empire in Ontario, Riverside County in Downtown Riverside, LA Coastal in Long Beach and North County in San Diego.

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Financial Statements and Report of Independent
Auditor

December 31, 2025 and 2024

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Independent Auditor's Report

Board of Directors
American Business Bank

Opinion

We have audited the financial statements of American Business Bank (the Bank), which comprise the balance sheets as of December 31, 2025 and 2024, 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, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 27, 2026

American Business Bank
BALANCE SHEETS
As of December 31, 2025 and 2024

ASSETS	2025	2024
Cash and due from banks	\$ 36,066,449	\$ 35,544,095
Interest earning deposits in other financial institutions	209,463,018	66,073,016
Cash and cash equivalents	245,529,467	101,617,111
Securities available-for-sale, at fair value	491,387,530	538,274,314
Securities held-to-maturity, at amortized cost, net of allowance for credit losses	527,774,983	544,806,419
Federal Home Loan Bank stock, at cost	15,000,000	15,000,000
Loans receivable	3,045,879,788	2,750,566,914
Allowance for credit losses	(33,501,855)	(30,448,105)
Loans receivable, net	3,012,377,933	2,720,118,809
Furniture, equipment and leasehold improvements, net	4,725,587	4,962,984
Bank/corporate owned life insurance	31,027,800	29,942,591
Deferred income tax assets, net	41,641,424	49,726,377
Accrued interest receivable and other assets	37,128,477	35,894,640
Total assets	\$ 4,406,593,201	\$ 4,040,343,245
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing demand deposits	\$ 1,781,418,959	\$ 1,644,634,569
Interest bearing transaction accounts	496,248,330	388,154,473
Money market and savings deposits	1,520,562,696	1,315,005,071
Certificates of deposit	155,823,073	296,206,412
Total deposits	3,954,053,058	3,644,000,525
Accrued interest payable and other liabilities	41,414,710	41,564,347
Total liabilities	3,995,467,768	3,685,564,872
Commitments and contingencies		
Shareholders' equity		
Common stock, no par value; authorized, 15,000,000 shares; issued and outstanding, 8,873,452 and 9,102,461 shares at December 31, 2025 and 2024, respectively	198,956,752	210,345,200
Accumulated other comprehensive loss	(52,881,736)	(75,590,318)
Retained earnings	265,050,417	220,023,491
Total shareholders' equity	411,125,433	354,778,373
Total liabilities and shareholders' equity	\$ 4,406,593,201	\$ 4,040,343,245

The accompanying notes are an integral part of these statements.

American Business Bank
STATEMENTS OF INCOME

For the years ended December 31, 2025 and 2024

	2025	2024
Interest income		
Interest and fees on loans	\$ 160,848,805	\$ 139,699,500
Investment securities	27,009,334	29,351,184
Interest earning deposits in other financial institutions	8,573,079	6,183,288
Total interest income	196,431,218	175,233,972
Interest expense		
Interest bearing transaction accounts	3,477,281	4,167,222
Money market and savings deposits	32,219,923	32,698,159
Certificates of deposits	7,551,550	10,234,609
Federal Home Loan Bank advances and other borrowings	1,493	4,164,848
Total interest expense	43,250,247	51,264,838
Net interest income	153,180,971	123,969,134
Provision for credit losses	2,766,000	984,000
Net interest income after provision for credit losses	150,414,971	122,985,134
Noninterest income		
Deposit fees	4,998,181	4,315,512
International fees	1,531,597	1,692,469
Loss on sale of investment securities, net	(7,289,589)	(1,391,475)
Gain on sale of SBA loans, net	243,605	346,265
Bank/corporate owned life insurance income	1,085,209	1,044,877
Other non-interest income	2,356,109	2,016,590
Total noninterest income	2,925,112	8,024,238
Noninterest expense		
Salaries and employee benefits	53,622,534	48,734,816
Occupancy and equipment	5,471,090	4,866,831
Professional services	9,475,060	8,424,672
Promotion expenses	3,073,377	2,707,540
Other expenses	6,605,097	6,094,034
Total noninterest expense	78,247,158	70,827,893
Income before income taxes	75,092,925	60,181,479
Income tax expense	20,888,555	16,904,611
NET INCOME	\$ 54,204,370	\$ 43,276,868
Earnings per share - basic	\$ 5.91	\$ 4.67
Earnings per share - diluted	\$ 5.86	\$ 4.64
Weighted average shares - basic	9,167,502	9,264,446
Weighted average shares - diluted	9,253,383	9,318,759

The accompanying notes are an integral part of these statements.

American Business Bank
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2025 and 2024

	2025	2024
Net Income	\$ 54,204,370	\$ 43,276,868
Other Comprehensive Income (Loss):		
Unrealized gains (losses) on securities:		
Available-for-sale:		
Net change in unrealized gains (losses)	24,094,478	(9,181,673)
Reclassification of losses to net income	7,289,589	1,391,475
Net unrealized gains (losses) on securities	31,384,067	(7,790,198)
Tax effect	(9,278,260)	2,303,063
Net unrealized gains (losses) on securities, net of tax	22,105,807	(5,487,135)
Held-to-maturity:		
Net change in unamortized unrealized loss on available-for-sale securities transferred into held-to-maturity	855,772	905,543
Tax effect	(252,997)	(267,711)
Net unrealized gains on securities, net of tax	602,775	637,832
Total other comprehensive income (loss)	22,708,582	(4,849,303)
Comprehensive income	\$ 76,912,952	\$ 38,427,565

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, 2025 and 2024

	Shares outstanding	Common stock	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2023	9,041,911	\$ 208,047,696	\$ 176,746,623	\$ (70,741,015)	\$ 314,053,304
Restricted stock vested	59,331	-	-	-	-
Repurchase of restricted stock at vesting	(11,917)	(440,496)	-	-	(440,496)
Distribution of restricted stock from DCP plan ⁽¹⁾	13,136	-	-	-	-
Stock-based compensation	-	2,738,000	-	-	2,738,000
Net income for the year	-	-	43,276,868	-	43,276,868
Other comprehensive income	-	-	-	(4,849,303)	(4,849,303)
Balance at December 31, 2024	9,102,461	\$ 210,345,200	\$ 220,023,491	\$ (75,590,318)	\$ 354,778,373
Restricted stock vested	67,631	-	-	-	-
Repurchase of restricted stock at vesting	(15,877)	(725,441)	-	-	(725,441)
Repurchase of shares ⁽²⁾	(289,105)	(13,754,031)	-	-	(13,754,031)
Distribution of restricted stock from DCP plan ⁽¹⁾	8,342	-	-	-	-
Cash dividend converted to shares in DCP plan, ⁽¹⁾ at \$1.00 per share	-	177,451	(177,451)	-	-
Cash dividend declared, at \$1.00 per share	-	-	(8,999,993)	-	(8,999,993)
Stock-based compensation	-	2,913,573	-	-	2,913,573
Net income for the year	-	-	54,204,370	-	54,204,370
Other comprehensive income	-	-	-	22,708,582	22,708,582
Balance at December 31, 2025	8,873,452	\$ 198,956,752	\$ 265,050,417	\$ (52,881,736)	\$ 411,125,433

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

(2) see Note N

The accompanying notes are an integral part of these statements.

American Business Bank
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2025 and 2024

	2025	2024
Net income	\$ 54,204,370	\$ 43,276,868
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	2,766,000	984,000
Depreciation and amortization of furniture, equipment and leasehold improvements	1,552,728	1,462,115
Net amortization of premium on securities	5,996,399	6,898,634
Amortization of operating lease right-of-use assets	2,110,676	1,610,205
Stock-based compensation expense	2,913,573	2,738,000
Bank/corporate owned life insurance income	(1,085,209)	(1,044,877)
Loss on sales of investment securities, net	7,289,589	1,391,475
Deferred income tax benefit	(1,446,304)	(505,055)
Changes in assets and liabilities:		
Accrued interest receivable and other assets	(1,234,796)	265,165
Accrued interest payable and other liabilities	(1,966,354)	790,856
Net cash provided by operating activities	71,100,672	57,867,386
Cash flows used in investing activities:		
Purchases of securities available-for-sale	(18,499,444)	(9,708,677)
Proceeds from sales of securities available-for-sale	26,827,645	13,499,261
Proceeds from maturities, paydowns and calls of securities available-for-sale	59,531,076	56,072,425
Proceeds from maturities, paydowns and calls of securities held-to-maturity	15,012,794	22,196,732
Net increase in loans receivable	(295,318,124)	(170,779,090)
Purchases of furniture, equipment and leasehold improvements	(1,315,331)	(1,836,135)
Net cash used in investing activities	(213,761,384)	(90,555,484)

The accompanying notes are an integral part of these statements.

American Business Bank
STATEMENTS OF CASH FLOWS - CONTINUED
For the years ended December 31, 2025 and 2024

	2025	2024
Cash flows provided by financing activities:		
Net increase in deposits	\$ 310,052,533	\$ 146,587,806
Net repayments of Federal Home Loan Bank advances	-	(55,000,000)
Cash dividend paid	(8,999,993)	-
Repurchase of shares	(13,754,031)	-
Repurchase of restricted stock at vesting	(725,441)	(440,496)
Net cash provided by financing activities	286,573,068	91,147,310
Net increase in cash and cash equivalents	143,912,356	58,459,212
Cash and cash equivalents at beginning of year	101,617,111	43,157,899
Cash and cash equivalents at end of year	\$ 245,529,467	\$ 101,617,111
Supplemental schedule of noncash investing and financing activities:		
Cash paid during the year for:		
Interest	\$ 44,428,641	\$ 51,326,253
Income taxes		
Federal taxes	14,480,000	10,030,000
State taxes		
California	7,980,000	5,880,000
Texas	13,993	19,314
Total net cash taxes paid in the current period	\$ 22,473,993	\$ 15,929,314
Supplemental noncash disclosures:		
Unrealized gains (losses) on investment securities, net of tax	22,708,582	(4,849,303)
Lease liabilities arising from obtaining right-of-use assets	2,109,717	5,371,957

The accompanying notes are an integral part of these statements.

American Business Bank

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2025 and 2024

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 companies, 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.

2. Operating Segments

The Bank is managed as a single business segment. The financial performance of the Bank is reviewed by the chief operating decision maker (CODM) on an aggregate basis and financial and strategic decisions are made based on the Bank as a whole. Banking operations is considered to be the Bank’s only operating segment. As a community-oriented financial institution, substantially all of the Bank’s operations involve the delivery of loan and deposit products to customers. The accounting policies of the community banking segment are the same as those described in the summary of significant policies of the Bank. The Bank adopted ASU 2023-07, Segment Reporting

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

(Topic 280): Improvements to Reportable Segment Disclosures retrospectively to all periods presented in the financial statements. The Bank's Chief Executive Officer (CEO) serves as the CODM. The significant segment expenses are disclosed in Note R – Segment Information.

3. Cash and Cash Equivalents and Cash Flows

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. The presentation of cash flows reports customer loan and deposit transactions on a net basis.

4. 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.

5. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Allowance for Credit Losses – Available-for-Sale Securities: In accordance with the credit loss model under ASC 326-30, available-for-sale securities 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.

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 \$2,537,700 and \$2,931,849 at December 31, 2025 and 2024, respectively, and is excluded from the estimate of credit losses.

Allowance for Credit Losses – Held-to-Maturity Securities: The allowance for credit 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 \$3,388,781 and \$3,450,675 at December 31, 2025 and 2024, respectively, and is excluded from the estimate of credit losses.

6. 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, 2025 and 2024 and determined it was not impaired. Dividends are reported as interest income.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. 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.

Individually evaluated loans: 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.

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.

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Modifications of loans to borrowers experiencing financial difficulty:

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. The Bank 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. The Bank 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.

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.

8. Allowance for Credit Losses on Loans

The Bank uses 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 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 \$10,678,861 and \$9,350,398 as of December 31, 2025 and 2024, respectively, 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. The Bank selects 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. The Bank measures 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.

The Bank's 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") 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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. The Bank uses a forecast period of one year and at the end of the forecast period reverts back to historical losses.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans.
6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

9. Furniture, Equipment and Leasehold Improvements

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

10. Bank/Corporate Owned Life Insurance

The Bank invests in Bank-Owned Life Insurance (“BOLI”) and Corporate-Owned Life Insurance (“COLI”). BOLI and COLI involve the purchasing of life insurance by the Bank on a group of senior officers of the Bank. The Bank is the owner and beneficiary of these policies. BOLI and COLI are recorded as an asset at cash surrender value. Increases and decreases in cash value of these policies and insurance proceeds received, net of administrative charges, are recorded in noninterest income and are not subject to income tax, as long as the policies are held for the lives of the participants.

11. Derivatives Not Designated as Hedging Instruments

The Bank is a party to an interest rate derivative that is not designated as a hedging instrument. 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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2025 and 2024 was \$813,799 and \$854,060, respectively.

Under the interest rate swap contract, the Bank may be required to pledge and maintain collateral for the credit support based on a certain threshold. At December 31, 2025 and 2024, the Bank was not required to pledge cash collateral.

12. Income Taxes

The Bank accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis 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, 2025 and 2024 will be utilized. In arriving at this conclusion the Bank is relying on projection of future pretax income and recent operating results. 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, 2025, 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 2022 and thereafter and California income tax examinations for years beginning in 2021 and thereafter.

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. Stock-Based Compensation

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

14. Earnings Per Share

Basic earnings per share (“EPS”) represent the net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential dilutive common shares that may be issued by the Bank relate to outstanding stock options and restricted stock, and are determined using the treasury stock method. At December 31, 2025 and 2024, there were no anti-dilutive options outstanding.

	2025			2024		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS						
Net income available to common shareholders	\$ 54,204,370	9,167,502	\$ 5.91	\$ 43,276,868	9,264,446	\$ 4.67
Effect of dilutive shares	-	85,881	(0.05)	-	54,313	(0.03)
Diluted EPS	<u>\$ 54,204,370</u>	<u>9,253,383</u>	<u>\$ 5.86</u>	<u>\$ 43,276,868</u>	<u>9,318,759</u>	<u>\$ 4.64</u>

15. Recent Accounting Pronouncements

Accounting Pronouncements 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

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 Bank adopted this guidance on a retrospective basis beginning with the annual period ending December 31, 2025 and has provided these enhanced income tax disclosures in Note I. There was no impact on the Bank's financial position or results of operations.

Accounting Standards Issued but not yet Adopted:

In November 2024, the FASB issued ASU 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses (ASU 2024-03). ASU 2024-03 requires additional interim and annual disclosures that further disaggregate certain expense captions into specified categories in a separate note to the financial statements, as well as certain qualitative information describing amounts not separately disaggregated. ASU 2024-03 is effective for public business entities in annual reporting periods beginning after December 15, 2026, as clarified by ASU 2025-01. Early adoption is permitted and can be applied on either a prospective or retrospective basis. The Bank is evaluating the impact of ASU 2024-03 to its disclosures.

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE B - INVESTMENT SECURITIES

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

	2025				
	Amortized cost	Unrealized gains	Unrealized losses	Allowance for Credit Losses	Fair value
Securities available-for-sale					
U.S. SBA loan pool securities	\$ 66,630,598	\$ 302,961	\$ (890,345)	\$ -	\$ 66,043,214
Residential mortgage-backed securities	381,685,913	42,177	(64,401,194)	-	317,326,896
Commercial mortgage-backed securities	33,355,999	74,771	(1,846,160)	-	31,584,610
Corporate securities	11,500,000	-	(866,515)	-	10,633,485
Municipal securities	70,883,423	-	(5,084,098)	-	65,799,325
Total securities available-for-sale	<u>\$ 564,055,933</u>	<u>\$ 419,909</u>	<u>\$ (73,088,312)</u>	<u>\$ -</u>	<u>\$ 491,387,530</u>
	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Allowance for Credit Losses
Securities held-to-maturity					
Asset-backed securities	\$ 5,006,187	\$ -	\$ (395,954)	\$ 4,610,233	\$ -
Residential mortgage-backed securities	135,860,310	-	(22,073,233)	113,787,077	-
Commercial mortgage-backed securities	13,661,093	4,624	(3,038,968)	10,626,749	-
Municipal securities	373,302,393	9,051	(59,336,890)	313,974,554	(55,000)
Total securities held-to-maturity	<u>\$ 527,829,983</u>	<u>\$ 13,675</u>	<u>\$ (84,845,045)</u>	<u>\$ 442,998,613</u>	<u>\$ (55,000)</u>
	2024				
	Amortized cost	Unrealized gains	Unrealized losses	Allowance for Credit Losses	Fair value
Securities available-for-sale					
U.S. SBA loan pool securities	\$ 73,004,781	\$ 178,105	\$ (1,346,857)	\$ -	\$ 71,836,029
Residential mortgage-backed securities	436,257,965	-	(90,591,073)	-	345,666,892
Commercial mortgage-backed securities	32,630,917	-	(2,895,828)	-	29,735,089
Corporate securities	16,250,000	-	(1,656,011)	-	14,593,989
Municipal securities	84,183,120	-	(7,740,805)	-	76,442,315
Total securities available-for-sale	<u>\$ 642,326,783</u>	<u>\$ 178,105</u>	<u>\$ (104,230,574)</u>	<u>\$ -</u>	<u>\$ 538,274,314</u>
	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Allowance for Credit Losses
Securities held-to-maturity					
Asset-backed securities	\$ 5,773,980	\$ -	\$ (718,524)	\$ 5,055,456	\$ -
Residential mortgage-backed securities	146,919,473	-	(33,508,059)	113,411,414	-
Commercial mortgage-backed securities	14,221,443	-	(3,240,480)	10,980,963	-
Municipal securities	377,946,523	11,333	(68,802,272)	309,155,584	(55,000)
Total securities held-to-maturity	<u>\$ 544,861,419</u>	<u>\$ 11,333</u>	<u>\$ (106,269,335)</u>	<u>\$ 438,603,417</u>	<u>\$ (55,000)</u>

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE B - INVESTMENT SECURITIES – Continued

As of December 31, 2025 and 2024, 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. There was no provision for credit losses, write-offs or recoveries on HTM securities at December 31, 2025 and 2024. The allowance for credit losses on HTM securities was \$55,000 at December 31, 2025 and 2024.

The amortized cost of securities transferred from available-for-sale to held-to-maturity was \$387,806,721 and \$404,338,599 at December 31, 2025 and 2024, respectively. The remaining unamortized unrealized loss was \$2,408,881 and \$3,264,654 at December 31, 2025, and 2024, respectively. During the years ended December 31, 2025 and 2024, the Bank did not transfer any securities from available-for-sale to held-to-maturity.

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

	<u>2025</u>	<u>2024</u>
Gains from sales of securities	\$ -	\$ 2,653
Losses from sales of securities	<u>(7,289,589)</u>	<u>(1,394,128)</u>
Net losses on sales of securities	<u>\$ (7,289,589)</u>	<u>\$ (1,391,475)</u>

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE B - INVESTMENT SECURITIES – Continued

The amortized cost and estimated fair value of investment securities at December 31, 2025, 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	\$ 63,408,110	\$ 56,914,822	\$ 43,405,538	\$ 41,215,507
Due in one to five years	181,003,747	159,834,310	58,478,074	50,087,835
Due in five to ten years	144,855,366	124,977,555	103,962,357	88,134,919
Due after ten years	174,788,710	149,660,843	321,984,014	263,560,352
Total	<u>\$ 564,055,933</u>	<u>\$ 491,387,530</u>	<u>\$ 527,829,983</u>	<u>\$ 442,998,613</u>

The total carrying value of securities pledged to secure borrowings, advances and for other purposes as required or permitted by law amount to \$861,814,658 and \$962,879,678 at December 31, 2025, and 2024, respectively.

The line of credit for overnight borrowings with the Federal Reserve Bank is collateralized with securities in the amount of \$695,452,588 and \$773,889,248 at December 31, 2025, and 2024, respectively.

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the years ended December 31, 2025 and 2024

NOTE B - INVESTMENT SECURITIES – Continued

The Bank uses S&P and Moody’s ratings 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:

	2025								
	AAA	AA+	AA	AA-	A+	A	A-	NR	Total
Securities held-to-maturity									
Asset-backed securities	\$ -	\$ 5,006,187	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,006,187
Residential mortgage-backed securities	-	135,860,310	-	-	-	-	-	-	135,860,310
Commercial mortgage-backed securities	-	13,661,093	-	-	-	-	-	-	13,661,093
Municipal securities	82,096,221	107,982,311	97,541,620	71,674,808	9,029,634	2,840,000	1,930,752	207,047	373,302,393
Total securities held-to-maturity	<u>\$ 82,096,221</u>	<u>\$ 262,509,901</u>	<u>\$ 97,541,620</u>	<u>\$ 71,674,808</u>	<u>\$ 9,029,634</u>	<u>\$ 2,840,000</u>	<u>\$ 1,930,752</u>	<u>\$ 207,047</u>	<u>\$ 527,829,983</u>
	2024								
	AAA	AA+	AA	AA-	A+	A	A-	NR	Total
Securities held-to-maturity									
Asset-backed securities	\$ -	\$ 5,773,980	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,773,980
Residential mortgage-backed securities	-	146,919,473	-	-	-	-	-	-	146,919,473
Commercial mortgage-backed securities	-	14,221,443	-	-	-	-	-	-	14,221,443
Municipal securities	73,252,639	108,748,773	106,911,089	63,202,652	19,182,399	4,499,653	1,941,665	207,653	377,946,523
Total securities held-to-maturity	<u>\$ 73,252,639</u>	<u>\$ 275,663,669</u>	<u>\$ 106,911,089</u>	<u>\$ 63,202,652</u>	<u>\$ 19,182,399</u>	<u>\$ 4,499,653</u>	<u>\$ 1,941,665</u>	<u>\$ 207,653</u>	<u>\$ 544,861,419</u>

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

	<u>2025</u>	<u>2024</u>
Construction loans	\$ 100,546,897	\$ 96,391,026
Commercial real estate loans	2,235,982,363	2,070,293,723
Residential real estate loans	135,778,761	128,906,189
Commercial loans	553,215,615	436,354,567
Other	<u>20,356,152</u>	<u>18,621,409</u>
Loans receivable	3,045,879,788	2,750,566,914
Allowance for credit losses	<u>(33,501,855)</u>	<u>(30,448,105)</u>
Loans receivable, net	<u>\$ 3,012,377,933</u>	<u>\$ 2,720,118,809</u>

Loans receivable includes net deferred loan fees of \$4,334,007 and \$4,065,656 as of December 31, 2025 and 2024, 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, 2025 and 2024, most of the Bank's loans secured by real estate were collateralized by properties in Southern California.

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

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:

		2025						
		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	\$	-	\$ -	\$ -	\$ -	\$ 100,546,897	\$ 100,546,897	\$ -
Commercial real estate		1,452,065	-	-	1,452,065	2,232,407,681	2,235,982,363	2,122,617
Residential real estate		-	-	-	-	135,058,533	135,778,761	720,228
Commercial		448,755	319,983	-	768,738	543,649,972	553,215,615	8,796,905
Other		37,417	-	-	37,417	20,318,735	20,356,152	-
	\$	<u>1,938,237</u>	<u>\$ 319,983</u>	<u>\$ -</u>	<u>\$ 2,258,220</u>	<u>\$ 3,031,981,818</u>	<u>\$ 3,045,879,788</u>	<u>\$ 11,639,750</u>

		2024						
		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	\$	-	\$ -	\$ -	\$ -	\$ 96,391,026	\$ 96,391,026	\$ -
Commercial real estate		-	-	-	-	2,070,293,723	2,070,293,723	-
Residential real estate		-	-	-	-	128,906,189	128,906,189	-
Commercial		227,739	-	-	227,739	427,572,501	436,354,567	8,554,327
Other		-	-	-	-	18,621,409	18,621,409	-
	\$	<u>227,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,739</u>	<u>\$ 2,741,784,848</u>	<u>\$ 2,750,566,914</u>	<u>\$ 8,554,327</u>

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

		2025					
		Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction	\$	99,789,053	\$ 757,844	\$ -	\$ -	\$ -	\$ 100,546,897
Commercial real estate		2,137,904,797	81,614,282	16,463,284	-	-	2,235,982,363
Residential real estate		134,458,495	600,038	720,228	-	-	135,778,761
Commercial		516,623,262	23,794,278	12,798,075	-	-	553,215,615
Other		20,068,743	287,409	-	-	-	20,356,152
	\$	<u>2,908,844,350</u>	<u>\$ 107,053,851</u>	<u>\$ 29,981,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,045,879,788</u>

		2024					
		Pass	Special Mention	Substandard	Doubtful	Loss	Total
Construction	\$	94,588,796	\$ 806,450	\$ 995,780	\$ -	\$ -	\$ 96,391,026
Commercial real estate		1,982,660,364	66,722,102	20,911,257	-	-	2,070,293,723
Residential real estate		125,385,461	3,520,728	-	-	-	128,906,189
Commercial		402,982,201	24,547,306	8,825,060	-	-	436,354,567
Other		18,582,114	39,295	-	-	-	18,621,409
	\$	<u>2,624,198,936</u>	<u>\$ 95,635,881</u>	<u>\$ 30,732,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,750,566,914</u>

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

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 charge-offs by year of origination as of and for the year ended December 31:

Amortized Cost Basis	2025							Revolving loans	Total
	Term Loans Origination Year								
December 31, 2025	2025	2024	2023	2022	2021	Prior			
Construction loans:									
Pass	\$ 2,254,358	\$ 24,078,782	\$ 5,452,167	\$ 60,347,428	\$ -	\$ 2,384,402	\$ 5,271,916	\$ 99,789,053	
Special Mention	-	-	-	632,959	124,885	-	-	757,844	
Substandard	-	-	-	-	-	-	-	-	
Doubtful & Loss	-	-	-	-	-	-	-	-	
Total Construction loans:	\$ 2,254,358	\$ 24,078,782	\$ 5,452,167	\$ 60,980,387	\$ 124,885	\$ 2,384,402	\$ 5,271,916	\$ 100,546,897	
Current YTD Period:									
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Commercial real estate loans:									
Pass	\$ 328,761,997	\$ 189,419,286	\$ 191,251,605	\$ 442,415,350	\$ 339,612,560	\$ 501,952,095	\$ 144,491,904	\$ 2,137,904,797	
Special Mention	5,721,911	15,182,078	16,245,849	20,715,267	6,794,283	5,250,824	11,704,070	81,614,282	
Substandard	-	-	930,130	1,075,513	9,740,110	3,574,681	1,142,850	16,463,284	
Doubtful & Loss	-	-	-	-	-	-	-	-	
Total Commercial real estate loans:	\$ 334,483,908	\$ 204,601,364	\$ 208,427,584	\$ 464,206,130	\$ 356,146,953	\$ 510,777,600	\$ 157,338,824	\$ 2,235,982,363	
Current YTD Period:									
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Residential real estate loans:									
Pass	\$ 6,348,932	\$ 8,622,551	\$ 2,946,789	\$ 12,013,619	\$ 10,514,434	\$ 7,999,482	\$ 86,012,688	\$ 134,458,495	
Special Mention	-	-	-	-	-	-	600,038	600,038	
Substandard	-	-	-	720,228	-	-	-	720,228	
Doubtful & Loss	-	-	-	-	-	-	-	-	
Total Residential real estate loans:	\$ 6,348,932	\$ 8,622,551	\$ 2,946,789	\$ 12,733,847	\$ 10,514,434	\$ 7,999,482	\$ 86,612,726	\$ 135,778,761	
Current YTD Period:									
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Commercial loans:									
Pass	\$ 166,254,111	\$ 53,184,744	\$ 44,104,164	\$ 33,546,822	\$ 20,226,233	\$ 8,772,369	\$ 190,534,819	\$ 516,623,262	
Special Mention	3,195,236	3,104,857	1,046,317	-	724,602	695,256	15,028,010	23,794,278	
Substandard	-	-	523,463	2,742,400	521,705	3,030,765	5,979,742	12,798,075	
Doubtful & Loss	-	-	-	-	-	-	-	-	
Total Commercial loans:	\$ 169,449,347	\$ 56,289,601	\$ 45,673,944	\$ 36,289,222	\$ 21,472,540	\$ 12,498,390	\$ 211,542,571	\$ 553,215,615	
Current YTD Period:									
Gross Charge-offs	\$ -	\$ -	\$ 5,409	\$ -	\$ -	\$ -	\$ -	\$ 5,409	
Other:									
Pass	\$ 4,425,518	\$ 1,791,789	\$ 72,444	\$ 3,938,418	\$ 2,051,617	\$ 93,690	\$ 7,695,267	\$ 20,068,743	
Special Mention	249,992	37,417	-	-	-	-	-	287,409	
Substandard	-	-	-	-	-	-	-	-	
Doubtful & Loss	-	-	-	-	-	-	-	-	
Total Other loans:	\$ 4,675,510	\$ 1,829,206	\$ 72,444	\$ 3,938,418	\$ 2,051,617	\$ 93,690	\$ 7,695,267	\$ 20,356,152	
Current YTD Period:									
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Loans Receivable, net:									
Pass	\$ 508,044,916	\$ 277,097,152	\$ 243,827,169	\$ 552,261,637	\$ 372,404,844	\$ 521,202,038	\$ 434,006,594	\$ 2,908,844,350	
Special Mention	9,167,139	18,324,352	17,292,166	21,348,226	7,643,770	5,946,080	27,332,118	107,053,851	
Substandard	-	-	1,453,593	4,538,141	10,261,815	6,605,446	7,122,592	29,981,587	
Doubtful & Loss	-	-	-	-	-	-	-	-	
Total loans receivable, net:	\$ 517,212,055	\$ 295,421,504	\$ 262,572,928	\$ 578,148,004	\$ 390,310,429	\$ 533,753,564	\$ 468,461,304	\$ 3,045,879,788	
Current YTD Period:									
Gross Charge-offs	\$ -	\$ -	\$ 5,409	\$ -	\$ -	\$ -	\$ -	\$ 5,409	

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

Amortized Cost Basis	2024						
	Term Loans Origination Year						
December 31, 2024	2024	2023	2022	2021	Prior	Revolving loans	Total
Construction loans:							
Pass	\$ 11,988,351	\$ 12,208,077	\$ 68,849,171	\$ -	\$ 1,543,197	\$ -	\$ 94,588,796
Special Mention	-	-	677,623	128,827	-	-	806,450
Substandard	-	-	-	-	995,780	-	995,780
Doubtful & Loss	-	-	-	-	-	-	-
Total Construction loans:	<u>\$ 11,988,351</u>	<u>\$ 12,208,077</u>	<u>\$ 69,526,794</u>	<u>\$ 128,827</u>	<u>\$ 2,538,977</u>	<u>\$ -</u>	<u>\$ 96,391,026</u>
Current YTD Period:							
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate loans:							
Pass	\$ 226,051,907	\$ 233,894,443	\$ 499,867,310	\$ 374,415,170	\$ 554,527,073	\$ 93,904,461	\$ 1,982,660,364
Special Mention	2,974,864	2,046,754	21,006,967	15,790,669	15,908,681	8,994,167	66,722,102
Substandard	-	-	15,217,542	883,585	1,492,097	3,318,033	20,911,257
Doubtful & Loss	-	-	-	-	-	-	-
Total Commercial real estate loans:	<u>\$ 229,026,771</u>	<u>\$ 235,941,197</u>	<u>\$ 536,091,819</u>	<u>\$ 391,089,424</u>	<u>\$ 571,927,851</u>	<u>\$ 106,216,661</u>	<u>\$ 2,070,293,723</u>
Current YTD Period:							
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate loans:							
Pass	\$ 12,623,896	\$ 6,231,515	\$ 13,160,890	\$ 10,872,684	\$ 7,937,160	\$ 74,559,316	\$ 125,385,461
Special Mention	-	-	-	-	545,667	2,975,061	3,520,728
Substandard	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-
Total Residential real estate loans:	<u>\$ 12,623,896</u>	<u>\$ 6,231,515</u>	<u>\$ 13,160,890</u>	<u>\$ 10,872,684</u>	<u>\$ 8,482,827</u>	<u>\$ 77,534,377</u>	<u>\$ 128,906,189</u>
Current YTD Period:							
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial loans:							
Pass	\$ 79,632,833	\$ 69,177,311	\$ 44,378,289	\$ 35,541,132	\$ 18,249,750	\$ 156,002,886	\$ 402,982,201
Special Mention	5,491,076	1,120,242	4,389,402	156,681	2,614,788	10,775,117	24,547,306
Substandard	-	937,984	2,675,995	857,281	803,818	3,549,982	8,825,060
Doubtful & Loss	-	-	-	-	-	-	-
Total Commercial loans:	<u>\$ 85,123,909</u>	<u>\$ 71,235,537</u>	<u>\$ 51,443,686</u>	<u>\$ 36,555,094</u>	<u>\$ 21,668,356</u>	<u>\$ 170,327,985</u>	<u>\$ 436,354,567</u>
Current YTD Period:							
Gross Charge-offs	\$ -	\$ 13,904	\$ -	\$ -	\$ 99,209	\$ -	\$ 113,113
Other:							
Pass	\$ 5,074,502	\$ 121,887	\$ 4,355,518	\$ 3,154,899	\$ 233,771	\$ 5,641,537	\$ 18,582,114
Special Mention	39,295	-	-	-	-	-	39,295
Substandard	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-
Total Other loans:	<u>\$ 5,113,797</u>	<u>\$ 121,887</u>	<u>\$ 4,355,518</u>	<u>\$ 3,154,899</u>	<u>\$ 233,771</u>	<u>\$ 5,641,537</u>	<u>\$ 18,621,409</u>
Current YTD Period:							
Gross Charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Loans Receivable, net:							
Pass	\$ 335,371,489	\$ 321,633,233	\$ 630,611,178	\$ 423,983,885	\$ 582,490,951	\$ 330,108,200	\$ 2,624,198,936
Special Mention	8,505,235	3,166,996	26,073,992	16,076,177	19,069,136	22,744,345	95,635,881
Substandard	-	937,984	17,893,537	1,740,866	3,291,695	6,868,015	30,732,097
Doubtful & Loss	-	-	-	-	-	-	-
Total loans receivable, net:	<u>\$ 343,876,724</u>	<u>\$ 325,738,213</u>	<u>\$ 674,578,707</u>	<u>\$ 441,800,928</u>	<u>\$ 604,851,782</u>	<u>\$ 359,720,560</u>	<u>\$ 2,750,566,914</u>
Current YTD Period:							
Gross Charge-offs	\$ -	\$ 13,904	\$ -	\$ -	\$ 99,209	\$ -	\$ 113,113

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

For the years ended December 31, 2025 and 2024, there were no line-of-credit arrangements that converted to term loans.

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:

	2025		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
Balance, beginning of year	\$ 30,448,105	\$ 738,000	\$ 31,186,105
Charge-offs	(5,409)	-	(5,409)
Recoveries	159	-	159
Net charge-offs	(5,250)	-	(5,250)
(Reversal of) provision for credit losses	3,059,000	(293,000)	2,766,000
Balance, end of year	<u>\$ 33,501,855</u>	<u>\$ 445,000</u>	<u>\$ 33,946,855</u>
	2024		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
Balance, beginning of year	\$ 28,460,178	\$ 1,594,000	\$ 30,054,178
Charge-offs	(113,113)	-	(113,113)
Recoveries	261,040	-	261,040
Net recoveries	147,927	-	147,927
(Reversal of) provision for credit losses	1,840,000	(856,000)	984,000
Balance, end of year	<u>\$ 30,448,105</u>	<u>\$ 738,000</u>	<u>\$ 31,186,105</u>

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

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

	2025					
	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	\$ 16,472,136	\$ 16,472,136	\$ -	\$ 16,748,656	\$ 681,721	\$ -
Commercial	4,000,000	4,000,000	-	3,971,429	285,129	-
With an allowance recorded:						
Residential real estate	\$ 798,456	\$ 722,127	\$ 91,495	\$ 1,334,215	\$ 116,020	\$ -
Commercial	10,202,972	9,107,375	413,441	8,993,017	452,951	-
Total	<u>\$ 31,473,564</u>	<u>\$ 30,301,638</u>	<u>\$ 504,936</u>	<u>\$ 31,047,317</u>	<u>\$ 1,535,821</u>	<u>\$ -</u>
	2024					
	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	\$ 996,940	\$ 996,940	\$ -	\$ 1,013,736	\$ 54,286	\$ -
Commercial real estate	20,935,584	20,935,584	-	21,745,400	1,116,368	-
Commercial	270,392	270,392	-	282,524	111,884	-
With an allowance recorded:						
Commercial	<u>\$ 9,693,788</u>	<u>\$ 8,829,745</u>	<u>\$ 416,465</u>	<u>\$ 9,162,229</u>	<u>\$ 514,296</u>	<u>\$ -</u>
Total	<u>\$ 31,896,704</u>	<u>\$ 31,032,661</u>	<u>\$ 416,465</u>	<u>\$ 32,203,889</u>	<u>\$ 1,796,834</u>	<u>\$ -</u>

The following tables present the individually evaluated loans by loan portfolio segment at amortized cost basis of collateral-dependent loans as of and for the years ended December 31:

	2025			2024		
	Real Estate Collateral	Other Collateral	Total	Real Estate Collateral	Other Collateral	Total
Construction	\$ -	\$ -	\$ -	\$ 995,780	\$ -	\$ 995,780
Commercial real estate	16,463,284	-	16,463,284	20,911,257	-	20,911,257
Commercial	5,276,153	-	5,276,153	496,380	-	496,380
Total	<u>\$ 21,739,437</u>	<u>\$ -</u>	<u>\$ 21,739,437</u>	<u>\$ 22,403,417</u>	<u>\$ -</u>	<u>\$ 22,403,417</u>

Loan modifications are accounted for under the general loan modification guidance in Subtopic 310-20. The modifications may include, but are not limited to, principal forgiveness, payment delays, term extensions, interest rate reductions, or a combination of such modifications.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES - Continued

The following table presents the loans that were modified to borrowers experiencing financial difficulty by portfolio segment and modification type, as well as the percentage of loans that were modified to total loans at December 31:

	2025				Modification as a % of loan portfolio segment
	Payment Delay	Term Extension	Interest Rate Reduction	Total	
Commercial real estate	\$ 2,123,836	\$ -	\$ -	\$ 2,123,836	0.1%
Commercial	2,903,941	-	-	2,903,941	0.5%
	<u>\$ 5,027,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,027,777</u>	<u>0.2%</u>
	2024				Modification as a % of loan portfolio segment
	Payment Delay	Term Extension	Interest Rate Reduction	Total	
Commercial real estate	\$ -	\$ -	\$ 2,319,184	\$ 2,319,184	0.1%
Commercial	2,302,748	912,225	-	3,214,973	0.7%
Other	-	38,627	-	38,627	0.2%
	<u>\$ 2,302,748</u>	<u>\$ 950,852</u>	<u>\$ 2,319,184</u>	<u>\$ 5,572,784</u>	<u>0.2%</u>

The following table presents the loans that were modified by aging categories as of December 31:

	2025			
	30-59 Days past due	90 or more Days past due	Total past due	Current
Commercial real estate	\$ -	\$ -	\$ -	\$ 2,123,836
Commercial	-	-	-	2,903,941
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,027,777</u>
	2024			
	30-59 Days past due	90 or more Days past due	Total past due	Current
Commercial real estate	\$ -	\$ -	\$ -	\$ 2,319,184
Commercial	1,498,794	803,955	2,302,748	912,225
Other	-	-	-	38,627
	<u>\$ 1,498,794</u>	<u>\$ 803,955</u>	<u>\$ 2,302,748</u>	<u>\$ 3,270,036</u>

There were 4 restructured loans during 2025 with an outstanding balance of \$5,027,777. There were 7 restructured loans during 2024 with an outstanding balance of \$5,572,784. The Bank has committed to lend additional amounts totaling \$0 and \$393,016 to the borrowers included in the table above as of December 31, 2025 and 2024, respectively.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

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:

	2025	2024
Furniture and equipment	\$ 9,546,705	\$ 8,742,392
Leasehold improvements	7,104,643	7,037,382
Total	16,651,348	15,779,774
Less: Accumulated depreciation and amortization	(11,925,761)	(10,816,790)
	\$ 4,725,587	\$ 4,962,984

Depreciation and amortization expenses were \$1,552,728 and \$1,462,115 for the years ended December 31, 2025 and 2024, 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 0.92 to 7.84 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.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

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, 2025, operating lease right-of-use (“ROU”) assets and related liabilities were \$12,098,847 and \$16,363,266, respectively. As of December 31, 2024, operating lease right-of-use (“ROU”) assets and related liabilities were \$12,099,806 and \$16,665,613, 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, 2025 and 2024. During the year ended December 31, 2025, the Bank had two new leases in January 2025 and August 2025, and amended one lease to expand the office in June 2025. During the year ended December 31, 2024, the Bank had no new leases and amended three leases to expand the office and extend the term in January 2024, April 2024 and September 2024. The Bank reassessed the ROU asset and liability related to these new or amended leases. The total lease cost was \$2,713,361 and \$2,199,391 for the years ended December 31, 2025 and 2024, respectively.

The table below summarizes the maturity of remaining lease liabilities as of December 31, 2025:

2026	\$ 3,461,383
2027	3,422,010
2028	3,322,859
2029	3,112,905
2030	2,150,386
Thereafter	<u>2,689,330</u>
Total undiscounted lease payments	18,158,873
Less: imputed interest	<u>(1,795,607)</u>
Net lease liabilities	<u>\$ 16,363,266</u>

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

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash outflows from operating leases	\$ 3,008,506	\$ 2,595,471
Right-of-use assets obtained in exchange for new operating lease liabilities	2,109,717	5,371,957

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE E – LEASES - Continued

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

	2025	2024
Operating lease weighted average remaining lease term (years)	5.62	6.26
Operating lease weighted average discount rate	3.98%	3.79%

As of December 31, 2025, the Bank had entered into one operating lease commitment, for the renewal of an existing lease, that had not yet commenced.

NOTE F - INVESTMENTS IN QUALIFIED AFFORDABLE HOUSING PARTNERSHIPS

The Bank invests in certain affordable housing projects in the form of ownership interests in limited partnerships that qualify for Community Reinvestment Act (CRA) credit and generate low-income housing tax credits (LIHTC) and other tax benefits for the bank. The Bank records its investments in qualified affordable housing partnerships using the proportional amortization method (PAM), if certain criteria are met, or the cost method. Under PAM, the Bank amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits that are allocated to the Bank over the period of the investment. The net benefits of these investments are recognized in the income statement as a component of income tax expense.

Investments in LIHTC are included in Accrued interest receivable and other assets on the Balance Sheet and totaled \$1,763,585 and \$1,962,597 as of December 31, 2025 and 2024, respectively. Unfunded LIHTC obligations are included in Accrued interest payable and other liabilities on the Balance Sheet and totaled \$1,029,973 and \$1,587,288 as of December 31, 2025 and 2024, respectively. For the year ended December 31, 2025 and 2024, \$199,012 and \$37,403 of amortization related to LIHTC investments was recognized as a component of income tax expense, respectively. There were no impairment losses related to LIHTC investments for the year ended December 31, 2025 and 2024.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE F - INVESTMENTS IN QUALIFIED AFFORDABLE HOUSING PARTNERSHIPS –
Continued

As of December 31, 2025 the Bank’s unfunded affordable housing partnerships commitments were estimated to be paid as follows:

Year ending December 31,	
2026	\$ 968,208
2027	16,779
2028	3,849
2029	3,849
2030	3,849
Thereafter	<u>33,439</u>
Total Unfunded Commitment	<u>\$ 1,029,973</u>

The Bank has variable interests through its affordable housing partnership investments. These investments are fundamentally designed to provide a return through the generation of income tax credits. The Bank has evaluated its involvement with the low-income housing projects and determined it does not have the ability to exercise significant influence over or participate in the decision-making activities related to the management of the projects, and therefore, is not the primary beneficiary, and does not consolidate these interests.

NOTE G - DEPOSITS

At December 31, 2025 and 2024, the Bank had certificates of deposit with balances of \$250,000 or more of \$115,755,666 and \$224,419,515, respectively.

At December 31, 2025, the scheduled maturities for certificates of deposits were as follows:

Scheduled maturities in:	
2026	\$ 155,823,073
2027	<u>-</u>
Total	<u>\$ 155,823,073</u>

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 \$83,955,089 and \$136,010,529, respectively at December 31, 2025 and 2024.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

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

There were no Federal Home Loan Bank (“FHLB”) advances outstanding at December 31, 2025 and 2024. The Bank has established a Standard Credit program with FHLB and has \$1,533,555,577 of its Real Estate loan portfolio pledged as collateral. This program gives the Bank a borrowing capacity of \$858,673,038 as of December 31, 2025.

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, 2025 and 2024, the Bank had \$15,000,000 of FHLB common stock. To reach a total borrowing capacity of \$858,673,038, 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 \$720,452,588 and \$828,889,248 of which \$0 was outstanding at December 31, 2025 and 2024, respectively.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE I - INCOME TAXES

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

	<u>2025</u>	<u>2024</u>
Current:		
Federal	\$ 14,252,042	\$ 10,946,556
State	8,082,817	6,463,110
	<u>22,334,859</u>	<u>17,409,666</u>
Deferred:		
Federal	(1,156,869)	(385,007)
State	(289,435)	(120,048)
	<u>(1,446,304)</u>	<u>(505,055)</u>
Total income tax expense	<u>\$ 20,888,555</u>	<u>\$ 16,904,611</u>

The Bank does not have pretax income from continuing foreign operations or foreign tax expense.

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

	<u>2025</u>	<u>2024</u>
Deferred tax assets:		
Allowance for credit losses on loans	\$ 9,760,906	\$ 8,944,524
Deferred lease liability	4,767,506	4,895,739
Accrued deferred compensation	4,799,609	4,613,335
Unrealized net loss on investment securities	22,195,548	31,726,805
State taxes	1,687,005	1,373,434
Accrued post-retirement health benefits	561,770	598,467
Stock-based compensation costs	1,277,982	995,178
Allowance for unfunded commitments	129,653	216,797
Other	1,012,567	892,841
Total deferred tax assets	<u>\$ 46,192,546</u>	<u>\$ 54,257,120</u>
Deferred tax liabilities:		
Depreciation and amortization	\$ (587,735)	\$ (521,348)
Lease right-of-use assets	(3,525,050)	(3,554,474)
Prepaid expenses and deferred loan costs	(438,337)	(454,921)
	<u>\$ (4,551,122)</u>	<u>\$ (4,530,743)</u>
Net deferred tax assets	<u>\$ 41,641,424</u>	<u>\$ 49,726,377</u>

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE I - INCOME TAXES - Continued

The income tax provisions for 2025 and 2024 differ from the amounts computed by applying the Federal statutory rate of 21% for 2025 and 2024, as follows:

	2025		2024	
	Amount	Percent	Amount	Percent
Federal statutory income tax rate	\$ 15,769,514	21.0%	\$ 12,638,111	21.0%
Effect of:				
State taxes, net of federal benefit ¹	6,128,065	8.2%	5,061,569	8.4%
Changes in tax rates enacted in current period	138,972	0.2%	-	0.0%
Tax credits				
Low income housing (net of proportional amortization)	(47,711)	-0.1%	(13,710)	0.0%
Nontaxable or nondeductible items				
Tax exempt interest, net of interest disallowed	(896,939)	-1.2%	(742,257)	-1.2%
Other	(203,347)	-0.3%	(39,102)	-0.1%
Effective income tax expense	<u>\$ 20,888,555</u>	<u>27.8%</u>	<u>\$ 16,904,611</u>	<u>28.1%</u>

¹State taxes in California made up the majority (greater than 50 percent) of the tax effect in this category.

On June 27, 2025, California Senate Bill 132 ("SB 132") was passed and signed into law by Governor Newsom. Effective for taxable years beginning on or after January 1, 2025, SB 132 amends California Revenue and Tax Code ("CRTC") to require financial institutions to apportion income using the single sales factor formula. Prior to this change, businesses were required by CRTC Section 25128 (b) to use an evenly weighted three-factor apportionment formula contemplating a payroll factor, property and sales factor. The impact on the Bank's tax expense for the year ended December 31, 2025 is \$138,972.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE J - 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.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE J - 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: A loan is individually evaluated for expected credit losses when it is probable 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.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE J - 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, 2025 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	\$ -	\$ 66,043,214	\$ -	\$ 66,043,214
Residential mortgage-backed securities	-	317,326,896	-	317,326,896
Commercial mortgage-backed securities	-	31,584,610	-	31,584,610
Corporate securities	-	10,633,485	-	10,633,485
Municipal securities	-	65,799,325	-	65,799,325
Total recurring	<u>\$ -</u>	<u>\$ 491,387,530</u>	<u>\$ -</u>	<u>\$ 491,387,530</u>

	Fair Value Measurements on a Recurring Basis at December 31, 2024 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	\$ -	\$ 71,836,029	\$ -	\$ 71,836,029
Residential mortgage-backed securities	-	345,666,892	-	345,666,892
Commercial mortgage-backed securities	-	29,735,089	-	29,735,089
Corporate securities	-	14,593,989	-	14,593,989
Municipal securities	-	76,442,315	-	76,442,315
Total recurring	<u>\$ -</u>	<u>\$ 538,274,314</u>	<u>\$ -</u>	<u>\$ 538,274,314</u>

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE J - 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, 2025 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:						
Commercial real estate	\$	-	\$	-	\$ 16,472,136	\$ 16,472,136
Residential real estate		-		-	630,632	630,632
Commercial		-		-	12,693,934	12,693,934
Total non-recurring	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$ 29,796,702</u>	<u>\$ 29,796,702</u>

Fair Value Measurements on a Non-Recurring Basis at December 31, 2024 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	\$	-	\$	-	\$ 996,940	\$ 996,940
Commercial real estate		-		-	20,935,584	20,935,584
Commercial		-		-	8,683,673	8,683,673
Total non-recurring	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>	<u>\$ 30,616,197</u>	<u>\$ 30,616,197</u>

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:

2025					
	Fair Value	Valuation Technique(s)	Unobservable input(s)	Range of input(s)	Weighted Average
Assets:					
Individually evaluated loans	\$ 21,627,205	Fair value of collateral	Discount rate	10%	10.00%
Individually evaluated loans	8,169,497	Discounted cash flows	Discount rate	5.50% to 12.25%	9.23%
Total individually evaluated loans:	<u>\$ 29,796,702</u>				

2024					
	Fair Value	Valuation Technique(s)	Unobservable input(s)	Range of input(s)	Weighted Average
Assets:					
Individually evaluated loans	\$ 22,431,909	Fair value of collateral	Discount rate	10% to 15%	13.91%
Individually evaluated loans	8,184,288	Discounted cash flows	Discount rate	6.65% to 11.25%	9.10%
Total individually evaluated loans:	<u>\$ 30,616,197</u>				

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE J - 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, 2025 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	\$ 245,529,467	\$ 245,529,467	\$ -	\$ -	\$ 245,529,467
Securities held-to-maturity	527,774,983	-	442,998,613	-	442,998,613
Loans receivable, net	3,012,377,933	-	-	2,937,330,496	2,937,330,496
Accrued interest receivable	16,825,886	-	16,825,886	-	16,825,886
Financial Liabilities:					
Non-interest bearing demand deposits	1,781,418,959	\$ -	\$ 1,781,418,959	\$ -	\$ 1,781,418,959
Interest bearing transaction accounts	496,248,330	-	496,248,330	-	496,248,330
Money market and savings deposits	1,520,562,696	-	1,520,562,696	-	1,520,562,696
Certificates of deposit	155,823,073	-	155,823,073	-	155,823,073
Accrued interest payable	959,062	-	959,062	-	959,062
Fair Value Measurements at December 31, 2024 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	\$ 101,617,111	\$ 101,617,111	\$ -	\$ -	\$ 101,617,111
Securities held-to-maturity	544,806,419	-	438,603,417	-	438,603,417
Loans receivable, net	2,720,118,809	-	-	2,574,509,946	2,574,509,946
Accrued interest receivable	15,852,512	-	15,852,512	-	15,852,512
Financial Liabilities:					
Non-interest bearing demand deposits	1,644,634,569	\$ -	\$ 1,644,634,569	\$ -	\$ 1,644,634,569
Interest bearing transaction accounts	388,154,473	-	388,154,473	-	388,154,473
Money market and savings deposits	1,315,005,071	-	1,315,005,071	-	1,315,005,071
Certificates of deposit	296,206,412	-	296,206,412	-	296,206,412
Accrued interest payable	2,137,457	-	2,137,457	-	2,137,457

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE K - 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, 2025, 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).

As of December 31, 2025, 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, 2025 and 2024 (\$ in thousands).

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE K - REGULATORY MATTERS – Continued

	Actual		For capital adequacy purposes		To be "well capitalized" under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<u>December 31, 2025:</u>					
Total capital (to risk weighted assets)	\$ 497,879	13.00%	\$ 306,388	8.00%	\$ 382,985	10.00%
Tier I capital (to risk weighted assets)	\$ 463,878	12.11%	\$ 229,791	6.00%	\$ 306,388	8.00%
Tier I leverage (to average assets)	\$ 463,878	10.29%	\$ 180,347	4.00%	\$ 225,434	5.00%
Common Equity Tier I (to risk weighted assets)	\$ 463,878	12.11%	\$ 172,343	4.50%	\$ 248,940	6.50%
	Actual		For capital adequacy purposes		To be "well capitalized" under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<u>December 31, 2024:</u>					
Total capital (to risk weighted assets)	\$ 461,423	13.02%	\$ 283,411	8.00%	\$ 354,263	10.00%
Tier I capital (to risk weighted assets)	\$ 430,182	12.14%	\$ 212,558	6.00%	\$ 283,411	8.00%
Tier I leverage (to average assets)	\$ 430,182	10.21%	\$ 168,482	4.00%	\$ 210,603	5.00%
Common Equity Tier I (to risk weighted assets)	\$ 430,182	12.14%	\$ 159,419	4.50%	\$ 230,271	6.50%

NOTE L - 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 \$1,027,572 and \$921,838 to the plan during the years ended December 31, 2025 and 2024, respectively.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE M - DEFERRED COMPENSATION PLAN - Continued

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 cash 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, 2025 and 2024, the cash surrender value of the BOLI and COLI policies was \$31,027,800 and \$29,942,591, respectively, and is recorded as Bank/corporate owned life insurance on the balance sheets. At December 31, 2025, the insurance was allocated among four individual insurance companies, with balances ranging from approximately 3% to 41% 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. For employees or directors that have not reached retirement age, benefits in the plan are payable January 1 of the year following separation. 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, 2025, there are twenty-two measurement investment funds under the Plan.

Deferrals made into the ABB Stock Unit Measurement Fund are limited to stock-based compensation granted to certain of 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.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE M - DEFERRED COMPENSATION PLAN - Continued

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. 8,343 and 13,137 shares were issued as distributions of restricted stock from the Plan for the years ended December 31, 2025 and 2024, respectively. Cash dividends converted to shares of restricted stock in the Plan was \$177,451 for the year ended December 2025.

The deferred compensation obligation related to the Plan was \$12,264,058 and \$11,225,290 at December 31, 2025 and 2024, 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 \$1,221,869 and \$1,068,444 for the years ended December 31, 2025 and 2024, respectively. The fair value of the participants' measurement investment funds, excluding the ABB Stock Unit Measurement Fund, increased to \$982,429 and \$938,013 for the years ended December 31, 2025 and 2024, respectively. Such change increased the deferred compensation obligation with a corresponding charge to salaries and employee benefits expense.

NOTE N - SHAREHOLDERS' EQUITY

Stock Options

The Bank has established the 2024 Equity Incentive Plan (the 2024 Plan), effective March 27, 2024, which provides for the issuance of non-qualified stock options subject to the terms and conditions of the Plan. The non-qualified options issued under the 2024 Plan allow participants 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 500,000 shares. At December 31, 2025 and 2024, 410,698 shares and 465,536 shares were available for future stock option grants under the 2024 Plan, respectively.

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. Following the effective date of the 2024 Equity Incentive Plan, the Bank can no longer issue any incentive stock options from the 2014 Omnibus Plan.

For both Plans, 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.

American Business Bank

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2025 and 2024

NOTE N - SHAREHOLDERS' EQUITY – Continued

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 2025 and 2024.

The Bank's pre-tax compensation expense for incentive stock options was \$0 for the years ended December 31, 2025 and 2024.

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

Stock Options:	2025	
	Shares	Weighted average exercise price
Outstanding, beginning of period	2,192	\$ 35.39
Granted	-	-
Exercised	-	-
Forfeited or expired	-	-
Outstanding, end of period	<u>2,192</u>	\$ 35.39
Options exercisable at year end	<u>2,192</u>	\$ 35.39
	2024	
Stock Options:	Shares	Weighted average exercise price
Outstanding, beginning of period	2,831	\$ 31.58
Granted	-	-
Exercised	-	-
Forfeited or expired	(639)	18.53
Outstanding, end of period	<u>2,192</u>	\$ 35.39
Options exercisable at year end	<u>2,192</u>	\$ 35.39

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE N - SHAREHOLDERS' EQUITY - Continued

Total intrinsic value of options exercised was \$0 for the years ended December 31, 2025 and 2024.

The following information applies to options outstanding at December 31:

Range of exercise prices	2025				
	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$35.24 - \$52.86	2,192	1.67	\$ 35.39	2,192	\$ 35.39
Aggregate intrinsic value	<u>\$ 64,472</u>			<u>\$ 64,472</u>	
Range of exercise prices	2024				
	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$35.24 - \$36.22	2,192	2.67	\$ 35.39	2,192	\$ 35.39
Aggregate intrinsic value	<u>\$ 18,879</u>			<u>\$ 18,879</u>	

Aggregate intrinsic value represents the difference between the Bank's closing stock price on the last trading day of the period, which was \$64.80 and \$44.00 as of December 31, 2025 and 2024, respectively, and the exercise price multiplied by the number of options outstanding or exercisable.

For the years ended December 31, 2025 and 2024, the total grant date fair value of options vested was \$0. As of December 31, 2025 and 2024, the Bank had no unrecognized compensation costs related to unvested options.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE N - SHAREHOLDERS' EQUITY - Continued

Restricted Stock Awards/Units

The 2024 Equity Incentive Plan ("the 2024 Plan"), effective March 27, 2024, provides for the issuance of Restricted Stock and Restricted Stock Units subject to the terms and conditions of the 2024 Plan. Under the 2024 Plan, 500,000 shares were authorized, and 410,698 and 465,436 shares of restricted stock were available for future awards as of December 31, 2025 and 2024. Since the inception of the 2024 Plan, the Bank granted 89,302 and 34,564 shares of Restricted Stock Units from the 2024 Plan to employees and directors during the year ended December 31, 2025 and 2024.

The 2014 Omnibus Plan provides for the issuance of Restricted Stock Awards/Units subject to the terms and conditions of the 2014 Omnibus Plan. Under the 2014 Omnibus Plan, 746,704 shares of restricted stock were authorized, and 0 shares were available for future awards as of December 31, 2025 and 2024. Following the effective date of the 2024 Plan, the Bank can no longer issue any Restricted Stock Awards/Units from the 2014 Omnibus Plan.

Non-Participating Restricted Stock Units granted to directors in 2025 and 2024, vest on the earlier of one year or the next annual shareholders' meeting. Restricted Stock Units granted to employees typically begin vesting in the second year from the grant date over a three to five year period. 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 for both plans.

The Bank recognized pre-tax compensation expense of \$2,913,573 and \$2,738,000 on restricted stock awards/units during the years ended December 31, 2025 and 2024, respectively. As of December 31, 2025 and 2024, the Bank had \$5,047,788 and \$5,577,301, 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 2.68 years.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE N - SHAREHOLDERS' EQUITY - Continued

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

Restricted Stock:	2025	
	Shares	Weighted average grant price
Unvested, beginning of period	224,518	\$ 36.55
Granted	54,738	44.93
Vested	(75,201)	34.50
Cancelled and forfeited	(2,517)	32.46
Unvested, end of period	<u>201,538</u>	\$ 39.64

Restricted Stock:	2024	
	Shares	Weighted average grant price
Unvested, beginning of period	203,657	\$ 35.47
Granted	100,940	35.87
Vested	(70,631)	32.81
Cancelled and forfeited	(9,448)	33.93
Unvested, end of period	<u>224,518</u>	\$ 36.55

Cash Dividend on Common Stock

During the year ended December 31, 2025, the Bank declared and paid quarterly cash dividends of \$0.25 per share for a total dividend payment to shareholders of \$8,999,993.

Stock Repurchase Program

In January 2025, the Bank's Board of Directors adopted its first stock repurchase program under which the Bank is authorized to repurchase up to 227,541 shares of the Bank's issued and outstanding common stock, and limited to an aggregate amount not to exceed \$10,100,000. The Bank completed its first stock repurchase program in August 2025. In August 2025, the Bank's Board of Directors adopted its second stock repurchase program under which the Bank is authorized to repurchase 205,453 shares of the Bank's issued and outstanding common stock, and limited to an aggregate amount not to exceed \$11,250,000. During the year ended December 31, 2025, the Bank repurchased 289,105 shares at a cost of \$13,754,031.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE O - 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 and captive insurance premiums.

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:

	2025	2024
Loan commitments to extend credit	\$ 1,421,645,235	\$ 1,347,892,037
Commercial letters of credit	780,146	1,746,392
Standby letters of credit	32,471,624	47,222,771

As of December 31, 2025 and 2024, the Bank established a reserve for estimated losses on off balance sheet commitments of \$445,000 and \$738,000 respectively. These balances are included in other liabilities on the balance sheet.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE O - 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, 2025, 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 P - RELATED PARTY TRANSACTIONS

During 2025 and 2024, 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, 2025 and 2024 are \$9,857,042 and \$10,600,484, respectively. Deposits from related parties held by the Bank at December 31, 2025 and 2024 amounted to \$3,121,119 and \$2,631,569, respectively.

The Bank has a liability for postretirement health benefits of \$1,928,133 and \$2,037,244 at December 31, 2025 and 2024, 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 Q – 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:

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE Q – REVENUE FROM CONTRACTS WITH CUSTOMERS – Continued

	2025	2024
Noninterest income		
Revenue from contracts with customers		
Service charges on deposit accounts	\$ 4,998,181	\$ 4,315,512
Standby letter of credit fees	567,228	554,519
Foreign currency exchange fees	765,501	946,176
Other international fees	198,868	191,774
Credit Card / Interchange fees	853,556	978,901
Other sources of non-interest income (loss) ^(a)	(4,458,222)	1,037,356
Total noninterest income	\$ 2,925,112	\$ 8,024,238

(a) Not within the scope of ASC 606

NOTE R – SEGMENT INFORMATION

The Bank’s reportable segment is determined by the Chief Executive Officer, who is designated as the chief operating decision maker (“CODM”), based upon information provided about the Bank’s products and services offered, primarily banking operations. The CODM evaluates the financial performance of the Bank’s businesses using revenue streams, comparative product pricing, and significant expenses to assess performance and return on equity and assets. The CODM uses net income and profitability metrics to benchmark the Bank against its competitors. Benchmarking analysis and monitoring of budget to actual results are used to assess performance and establish compensation. The CODM when making significant decisions takes into consideration certain financial metrics including loan growth, core deposit growth, return on assets, return on average tangible common equity, efficiency ratio, and net interest margin.

Interest income from loans and other earning assets, and income from fee-based businesses provide banking operation revenue. Interest expense on deposits and other sources of funding, provisions for credit losses, and operating expenses, primarily salaries and employee benefits, professional services, and occupancy and equipment, provide the significant expenses of banking operations. The Bank currently operates as a single segment and all operations are throughout the state of California.

American Business Bank
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2025 and 2024

NOTE R – SEGMENT INFORMATION – Continued

	2025	2024
Net interest income	\$ 153,180,971	\$ 123,969,134
Provision for credit losses	2,766,000	984,000
Noninterest income	2,925,112	8,024,238
Noninterest expense	78,247,158	70,827,893
Income before income taxes	\$ 75,092,925	\$ 60,181,479
Total assets	\$ 4,406,593,201	\$ 4,040,343,245
Investment securities AFS and HTM	1,019,162,513	1,083,080,733
Loans receivable	3,045,879,788	2,750,566,914
Total deposits	3,954,053,058	3,644,000,525
Significant segment expenses		
Salaries and employee benefits	\$ 53,622,534	\$ 48,734,816
Professional services	9,475,060	8,424,672
Occupancy and equipment	5,471,090	4,866,831

NOTE S - SUBSEQUENT EVENTS

On February 12, 2026, the Board of Directors declared a quarterly cash dividend on its common stock of \$0.30 per share. The dividend was paid on March 18, 2026 to shareholders of record as of February 26, 2026.

The Bank evaluated subsequent events through March 27, 2026, the date the financial statements were available to be issued.

Board of Directors

Robert Usdan

Chairman,
Co-Founder, Retired Principal,
The Endicott Group

Leon Blankstein

Chief Executive Officer,
Co-Founder
American Business Bank

Robert F. Schack

Chairman Emeritus, and Co-Founder American
Business Bank

Don P. Johnson

Vice Chairman, Co-Founder
American Business Bank

Jon Schlobom

Former Chairman
National Corset Supply

Trent Merrill

Chief Executive Officer
Triple R, LLC

Edith Matthai

Neutral
Judicial Arbitration and Mediation Services
(JAMS)

Gaurav Malhotra

Partner
Lucas Horsfall

Tom Powledge

Chief Product Officer
Trustwave Holdings Inc.

Javier Sanchez

Co-Owner, Executive Vice President and
Chief Financial Officer,
Jonathan Louis

Pasy Wang

Vice President, Chief Investment Officer
Cedars-Sinai

Executives

Leon Blankstein

Chief Executive Officer, Director, Co-Founder

Karen Schoenbaum

Executive Vice President, Chief Financial Officer

David A. Wolf

Executive Vice President, Corporate Banking

Jeffrey Munson

Executive Vice President, Chief Credit Officer

Christopher Basirico

Executive Vice President, Corporate Banking

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



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