



2023 Annual Report

AmericanBank
Incorporated

Consolidated Financial Highlights

(Dollars in Thousands, except per share data)	2023	2022	Percentage Change
AT YEAR END			
Assets	\$ 918,877	\$ 927,284	(0.9%)
Loans receivable, net	732,180	653,686	12.0%
Deposits	701,538	667,477	5.1%
Stockholders' Equity	89,811	81,908	9.6%
FOR THE YEAR			
Net Interest Income	\$ 22,925	\$ 23,587	(2.8%)
Net Income	9,312	10,115	(7.9%)
PER SHARE DATA			
Earnings – Basic	\$ 1.48	\$ 1.63	(9.2%)
Earnings – Diluted	1.42	1.57	(9.6%)
Book Value	14.20	12.94	9.7%
FINANCIAL RATIOS			
Return on average assets	1.03%	1.13%	
Return on average equity	10.68%	12.71%	
Average stockholders' equity to average assets	9.65%	8.90%	
Net interest margin	2.68%	2.76%	
Net interest spread	2.22%	2.56%	
Non-interest expense to average assets	1.46%	1.37%	
Efficiency ratio	53.44%	48.36%	
Non-accruing loans/Total loans	0.43%	0.05%	
Allowance for credit losses/Non-performing loans ..	234.13%	2,883.82%	

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March 22, 2024

Dear Fellow Shareholder:

Expectations are typically high when heading into a new year and that was certainly true as we entered 2023. Those expectations were quickly adjusted as we saw a banking crisis emerge caused by the failures of Silicon Valley Bank, First Republic Bank and Signature Bank along with rising interest rates and inflationary pressures. However, as will be illustrated throughout this letter, we stayed the course despite these economic challenges and have remained resilient.

Review of Earnings

Net income was \$9,312,000 for the year ended December 31, 2023, a 7.9% decrease from net income of \$10,115,000 for the year ended December 31, 2022. The decrease in net income for the year ended December 31, 2023 was primarily due to a decrease in net interest income and an increase in non-interest expense. Net interest income decreased \$662,000, or 2.8%, to \$22.9 million, as compared to \$23.6 million for the year ended December 31, 2022. The decrease in net interest income was primarily due to increased interest expense paid to depositors and on short-term borrowings despite interest rate increases in our loan and investment portfolios.

As interest rates continued to stay high throughout the year, we saw a significant increase in yields on interest-earning assets of 4.57% from 3.54% for 2022. However, we also saw an even larger increase in yields on interest-bearing liabilities of 2.35% from 0.98% for 2022. Your Company's lower net interest income decline in 2023 was a direct result of margin compression.

Loan Portfolio Growth

Despite the rising interest rate environment and slowing demand, net loans outstanding increased by \$78.5 million, or 12.0%, to \$732.2 million from \$653.7 million at December 31, 2022. Our growth of \$60.1 million was due to our commercial loan portfolio, as our Commercial Lending team continued their commitment to building full-service banking relationships with small and medium sized businesses throughout our primary market areas. Our residential loan portfolio grew \$16.5 million, or 67.6%, as we sold fewer loans on the secondary market in 2023 and retained more in portfolio at attractive yields. While we understand that the current interest rate environment may have an impact on demand, we are confident that our dedication to providing a convenient, personalized experience for our customers will allow us to generate additional loan volume.

It is important to note that while our loan portfolio continued to grow at a steady pace, we did not waver on our conservative underwriting standards and, as a result, there were only two non-accruing relationships totaling \$3,164,000 as of December 31, 2023.

Focus On Deposit Generation

Throughout 2023, we saw pressure across the banking industry to obtain and preserve consumer and business deposits. As a community bank focused on providing the deposit products that will serve the needs of all customers, we were quick to respond and developed deposit programs to address customers' banking

priorities. We saw total deposits grow \$34.1 million, or 5.1%, to \$701.5 million at December 31, 2023, from \$667.4 million at December 31, 2022.

Given the regional bank failures that occurred in 2023, we realized the need to address customers' concerns as it relates to their deposits with the introduction of a product that provides full FDIC insurance. This product, available through our partnership with Intrafi, gives our customers access to 100% insurance coverage on all their balances while maintaining their relationship with us as their primary financial institution. We are able to provide peace of mind to our customers and at the same time, allow them to manage their deposits easily as their funds are accessible when they need it.

Overview of Earnings Ratios

We saw declines in both our return on assets and our return on equity primarily due to a decrease in net income while recognizing increases in both average assets and average equity. Return on assets decreased to 1.03% from 1.13% for the same period in 2022. Return on equity for 2023 was 10.68% compared to 12.71% for the same period in 2022.

Our efficiency ratio increased to 53.44% from 48.36% for the same period in 2022 as we moved our principal office to The Waterfront, a lifestyle campus along the Lehigh River in Allentown, PA. Several of our executive offices, including our Commercial and Residential Lending teams, operate out of this location and we continue to serve our customers from our branch location on West Tilghman Street in Allentown. The non-interest expense to average assets ratio increased to 1.46% from 1.37% for the same period in 2022.

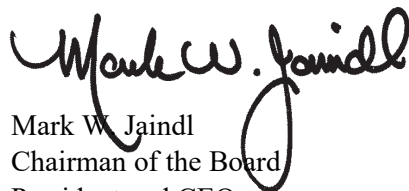
Enhancing Shareholder Value

Our Board of Directors and Management team appreciate the confidence that you as a shareholder have placed in us as we execute our strategic vision while we navigate what continues to be an ever-changing environment. Dividends totaling \$0.66 cents per share were paid in 2023, including a \$0.10 special dividend paid in April 2023. Our dividend payout ratio was 44.8% for 2023, up from 36.6% for 2022. In January 2024, our Board of Directors declared a dividend of \$0.14 per share of common stock payable on April 1, 2024. This year marks the 20th consecutive year of paying dividends, further demonstrating our commitment to you as a shareholder.

Looking Ahead to 2024

As we enter 2024, know that American Bank is strong, stable, and optimistic about what lies ahead. We are focused on continuing to serve our customers, our community and you, our shareholders, by investing in the resources that will allow us to respond to the evolving banking environment. We will remain thoughtful in our approach, keeping in mind the impact that our strategies may have on all our stakeholders. We are fortunate to have a team of Directors, management and staff that are all dedicated to our overall growth and success.

On behalf of the Board of Directors, thank you for your continued trust and support.



Mark W. Jaendl
Chairman of the Board
President and CEO

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following information is derived from the audited financial statements of American Bank Incorporated (the "Company"). For additional information about the formation of American Bank Incorporated and its acquisition of all the outstanding shares of American Bank, reference is made to the Consolidated Financial Statements of American Bank Incorporated and related notes included elsewhere herein.

	At December 31,				
	2023	2022	2021	2020	2019
	(In Thousands)				
Selected Financial Condition Data:					
Total assets	\$ 918,877	\$ 927,284	\$ 849,150	\$ 734,290	\$ 641,552
Loans receivable, net	732,180	653,686	606,572	586,949	517,435
Equity securities	-	774	686	490	629
Investment securities available-for-sale	92,635	200,442	77,841	55,302	60,014
Investment securities held-to-maturity	-	-	200	200	205
Deposits	701,538	667,477	660,880	550,941	477,127
Short-term borrowings	61,681	101,767	37,464	37,860	25,892
Long-term borrowings	45,000	55,000	65,000	65,000	65,000
Junior subordinated debentures	2,760	2,861	6,199	10,086	10,111
Stockholders' equity	89,811	81,908	76,250	66,364	60,661
For the year ended December 31,					
	2023	2022	2021	2020	2019
(Dollars in thousands, except per share data)					
Selected Operating Data:					
Total interest income	\$ 39,126	\$ 30,257	\$ 27,374	\$ 26,817	\$ 26,010
Total interest expense	16,201	6,670	5,734	6,984	7,650
Net interest income	22,925	23,587	21,640	19,833	18,360
(Release of) provision for credit losses	(159)	388	521	969	205
Net interest income after (release of) provision for credit losses	23,084	23,199	21,119	18,864	18,155
Total non-interest income	1,768	1,743	2,435	2,191	1,394
Total non-interest expense	13,195	12,249	10,843	10,212	9,610
Income before income tax expense	11,657	12,693	12,711	10,843	9,939
Income tax expense	2,345	2,578	2,608	2,129	2,058
Net income	<u>\$ 9,312</u>	<u>\$ 10,115</u>	<u>\$ 10,103</u>	<u>\$ 8,714</u>	<u>\$ 7,881</u>
Dividends paid per share	\$ 0.66	\$ 0.60	\$ 0.56	\$ 0.48	\$ 0.46
Earnings per share - basic	\$ 1.48	\$ 1.63	\$ 1.82	\$ 1.57	\$ 1.41
Earnings per share - diluted	\$ 1.42	\$ 1.57	\$ 1.68	\$ 1.37	\$ 1.24
Performance Ratios:					
Return on assets (ratio of net income to average assets)	1.03%	1.13%	1.28%	1.25%	1.24%
Return on equity (ratio of net income to average equity)	10.68%	12.71%	14.40%	13.73%	13.44%
Average interest rate spread	2.22%	2.56%	2.74%	2.91%	2.97%
Net interest margin (ratio of net interest income divided by average earning assets)	2.68%	2.76%	2.90%	3.00%	3.07%
Ratio of operating expense to average assets	1.46%	1.37%	1.38%	1.46%	1.52%
Ratio of average interest-earning assets to average interest-bearing liabilities	124.1%	125.20%	119.40%	108.50%	107.50%
Asset Quality Ratios:					
Non-accruing loans to total loans at end of year	0.43%	0.05%	0.06%	0.08%	0.06%
Allowance for credit losses to non-performing loans	234.13%	2,883.82%	2,497.07%	1,751.75%	1,994.13%
Allowance for credit losses to total gross loans	1.00%	1.35%	1.38%	1.34%	1.30%
Capital Ratios:					
Stockholders' equity to total assets at end of year	9.77%	8.83%	8.98%	9.04%	9.46%
Average stockholders' equity to average assets	9.65%	8.90%	8.91%	9.07%	9.26%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This document contains certain “forward-looking statements” which may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage and other loans, real estate values, and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, product pricing and services.

Overview

American Bank Incorporated is a bank holding company whose assets consist primarily of its investment in American Bank, its wholly owned subsidiary. The principal business activity of American Bank Incorporated is overseeing and directing the business of American Bank. American Capital Trust I is a financing subsidiary of American Bank Incorporated, and the purpose of the trust was to issue shares of convertible preferred securities to the public. AB Building LLC, AMBK Services LLC and AMBK Real Estate LLC are operating subsidiaries of American Bank. The purpose of AB Building LLC is to hold real estate, leasehold improvements or other property qualifying as bank premises, the purpose of AMBK Services LLC is to pay compensation and benefits for employees of the subsidiary, and the purpose of AMBK Real Estate LLC is to hold title to real estate or leasehold interest acquired for prior debt. The consolidated financial statements include the accounts of American Bank Incorporated, American Bank and American Capital Trust I. All significant intercompany accounts and transactions have been eliminated.

American Bank is a full-service, Pennsylvania state-chartered bank. We currently operate from our principal office and a branch location located in Allentown, Pennsylvania, and a loan production office in Blue Bell, Pennsylvania. Our principal business is attracting deposits from the general public and using those deposits, together with borrowings and other funds, to originate loans and to purchase investment securities. We offer a comprehensive menu of deposit and loan products for consumer, business, institutional and governmental customers, including interest-bearing checking and money market accounts, savings accounts, certificates of deposit and individual retirement accounts. We also engage in mortgage banking activities, which include the origination, purchase and, in certain instances, subsequent sale of residential mortgage loans.

AmericanBank Online is the registered trademark of American Bank and the brand name for online banking services provided by American Bank. Through *AmericanBank Online* (available at AMBK.com), American Bank delivers convenience through innovative technology, absent the restrictions of time and geography, by offering a broad menu of real-time banking services accessible through online or mobile banking.

American Bank Incorporated's results of operations depend primarily on net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and interest-bearing deposits with other financial institutions, and the interest we pay on our interest-bearing liabilities, consisting primarily of interest-bearing checking accounts, money market accounts, savings accounts, time deposits and borrowed funds. Our results of operations are also affected by our provision for credit losses, non-interest income and non-interest expense. Non-interest income consists primarily of service charges on deposit accounts, loan swap fees, net gains on sales of residential mortgage loans, net gains (losses) on equity securities, and earnings on bank-owned life insurance. Non-interest expense consists primarily of expenses for salaries and employee benefits, occupancy, equipment and data processing, hosted services, professional services, Pennsylvania bank shares tax, and Federal deposit insurance. Our results of operations may also be affected significantly by general and local economic and competitive conditions, particularly those with respect to changes in market interest rates, governmental policies and actions of regulatory authorities.

For the year ended December 31, 2023, we recorded net income of \$9.3 million, compared to net income of \$10.1 million for the year ended December 31, 2022. Net interest income decreased \$662,000, or 2.8%, to \$22.9 million for the year ended December 31, 2023 from \$23.6 million for the year ended December 31, 2022. The provision for credit losses decreased \$547,000, or 141.0%, to a release of provision expense of \$159,000 for the year ended December 31, 2023 compared to a credit loss expense of \$388,000 for the year ended December 31, 2022. Non-interest income increased \$25,000, or 1.4%, to \$1.8 million for the year ended December 31, 2023 compared to \$1.7 million for the year ended December 31, 2022, while non-interest expense increased \$946,000, or 7.7%, to \$13.2 million for the year ended December 31, 2023 compared to \$12.2 million for the year ended December 31, 2022.

Critical Accounting Policies

Disclosure of our significant accounting policies is included in Note 2 to the consolidated financial statements. Certain of these policies are particularly sensitive, requiring significant estimates and assumptions to be made by management. Management has discussed the development of such estimates and the related disclosure in this section of our Annual Report with the Audit Committee of the Board of Directors. The following accounting policy is identified by management as being critical to the results of operations:

Allowance for Credit Losses. We adopted FASB ASC Topic 326, in accordance with the amendments of FASB ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC 326” or “CECL”), effective January 1, 2023. The guidance in ASC 326 replaces our previous incurred loss methodology with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit losses.

In accordance with CECL, the allowance for credit losses (“ACL”), which includes both the allowance for credit losses for loans and the allowance for credit losses for off-balance sheet credit exposures, is calculated with the objective of maintaining a reserve for current expected credit losses over the remaining expected life of the portfolio. Management’s determination of the appropriateness of the reserve is based on continuously monitoring and evaluating the loan portfolio, lending-related commitments, current as well as forecasted economic factors, and other relevant factors. The ACL for loans is an estimate of expected losses inherent within our existing loan portfolio.

The loan loss estimation process involves procedures to appropriately consider the unique characteristics of our loan portfolio segments. When computing allowance levels, credit loss assumptions are estimated using a model that characterizes loan segments based on loss history, other credit trends, and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Evaluations of the loan portfolio and individual loans are inherently subjective, as they require estimates, assumptions and judgments as to the facts and circumstances of particular situations. Determining the appropriateness of the allowance is complex and requires judgement by management about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the ACL and credit loss expense.

We estimate the ACL using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. We use a third-party software model to calculate the quantitative portion of the ACL using a methodology and assumptions specific to each loan segment. The qualitative portion of the allowance is based on general economic conditions and other internal and external factors affecting the Company as a whole as well as specific loans. Factors considered include lending policies and procedures including historically based loss/collection; volume of past-due loans; national and economic conditions; nature and volume of the loan portfolio; and the effect of loan pool concentrations and changes in the levels of such concentrations. The qualitative and quantitative portions of the allowance are added together to determine the total ACL, which reflects management’s expectations of future conditions based on reasonable and supportable forecasts. As such, the calculation of the ACL is inherently subjective and requires management to exercise significant judgement.

While management uses the best information known in order to make ACL valuations, adjustments to the ACL may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio, or changes in accounting guidance. In times of economic slowdown, either local, regional or national, the risk inherent in the loan portfolio could increase resulting in the need for additional provisions to the ACL in future periods. An increase (decrease) could also be necessitated by an increase (decrease) in the size of the loan portfolio or in any of its components even though credit quality of the overall loan portfolio may be improving.

Interest Sensitivity

We monitor and manage the pricing and maturity of our assets and liabilities in order to manage the potential adverse impact that changes in interest rates could have on our net interest income. One monitoring technique employed by us is the measurement of our interest sensitivity “gap,” which is the positive or negative dollar difference between assets and liabilities whose interest rates may be re-priced or that mature within a given period of time. We also employ financial modeling techniques to assess the impact that varying interest rates and balance sheet mix assumptions may have on net interest income.

We attempt to manage interest rate sensitivity by, among other actions, re-pricing assets or liabilities, selling investment securities classified as available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities re-pricing or maturing in the same time interval helps to control the risk and minimize the impact on net interest income of rising or falling interest rates. We evaluate interest rate sensitivity and formulate guidelines regarding asset generation and re-pricing, funding sources and pricing and off-balance sheet commitments in order to manage interest rate risk within our policy requirements.

The following table illustrates our gap position at December 31, 2023. Except as stated below, the amount of assets and liabilities shown which re-price or mature during a particular period were determined in accordance with the earlier of term to re-pricing or the contractual maturity of the asset or liability. Savings deposits and interest-bearing checking accounts do not have contractual maturities and are assumed to run off, or decay, at 25%, 20%, 15%, 15%, 15% and 10% during the time-frames shown on the following table.

December 31, 2023
Maturities and Re-pricings

	Within 1 Year	Over 1 Year Through 2 Years	Over 2 Years Through 3 Years	Over 3 Years Through 5 Years	Over 5 Years Through 10 Years	Over 10 Years	Total
	(Dollars in Thousands)						
Interest-earning assets:							
Interest-bearing deposits.....	\$ 36,256	-	\$ -	\$ -	\$ -	\$ -	\$ 36,256
Loans receivable	223,685	107,770	135,747	189,998	41,324	40,834	739,358
Mortgage-backed securities.....	10,910	-	-	-	4,111	7,273	22,294
Investment securities	54,829	7,957	10,760	-	-	-	73,546
Bank-owned life insurance.....	23,406	-	-	-	-	-	23,406
Restricted investment in bank stock.....	3,904	-	-	-	-	-	3,904
Total interest-earning assets.....	<u>\$ 352,990</u>	<u>\$ 115,727</u>	<u>\$ 146,507</u>	<u>\$ 189,998</u>	<u>\$ 45,435</u>	<u>\$ 48,107</u>	<u>\$ 898,764</u>
Interest-bearing liabilities:							
Demand deposits	\$ 49,290	\$ 39,432	\$ 29,574	\$ 29,574	\$ 29,574	\$ 19,715	\$ 197,159
Savings deposits	46,541	37,233	27,925	27,925	27,925	18,615	186,164
Time deposits.....	210,580	9,201	1,558	4,149	-	-	225,488
Borrowings.....	81,681	15,000	-	10,000	-	-	106,681
Junior subordinated debentures.....	-	-	-	-	2,760	-	2,760
Total interest-bearing liabilities	<u>\$ 388,092</u>	<u>\$ 100,866</u>	<u>\$ 59,057</u>	<u>\$ 71,648</u>	<u>\$ 60,259</u>	<u>\$ 38,330</u>	<u>\$ 718,252</u>
Interest sensitivity gap.....	<u>\$ (35,102)</u>	<u>\$ 14,861</u>	<u>\$ 87,450</u>	<u>\$ 118,350</u>	<u>\$ (14,824)</u>	<u>\$ 9,777</u>	<u>\$ 180,512</u>
Cumulative interest sensitivity gap	<u>\$ (35,102)</u>	<u>\$ (20,241)</u>	<u>\$ 67,209</u>	<u>\$ 185,559</u>	<u>\$ 170,735</u>	<u>\$ 180,512</u>	<u>\$ 180,512</u>
Ratio of gap to total interest-earning assets	<u>(3.9)%</u>	<u>1.7%</u>	<u>9.7%</u>	<u>13.1%</u>	<u>(1.6)%</u>	<u>1.1%</u>	<u>20.1%</u>
Ratio of cumulative gap to total interest-earning assets	<u>(3.9)%</u>	<u>(2.2)%</u>	<u>7.5%</u>	<u>20.6%</u>	<u>19.0%</u>	<u>20.1%</u>	<u>20.1%</u>

We generally would benefit from increasing market rates of interest when it has an asset-sensitive gap and from decreasing market rates of interest when it is liability-sensitive. As of December 31, 2023, we were liability-sensitive over a time horizon of up to 12 months by \$35.1 million. Management's goal is to originate loans and purchase securities with relatively short interest rate lives and to fund those assets with liabilities that have similar or longer interest rate lives. This strategy will allow us to remain neutral or only be modestly negatively impacted from increasing interest rates. Declining interest rates would have a positive impact on our net interest income stream.

A gap analysis is not a precise indicator of a financial institution's interest sensitivity position. Such an analysis presents only a static view of the timing of maturities and re-pricing opportunities without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Net interest income is also affected by other significant factors, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities.

We have not engaged in off-balance sheet hedges or other transactions that may be deemed "speculative," as that term is defined by various regulatory agencies, for the purpose of managing interest rate risk.

Average Balance Sheets

The following table presents for the years indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax-equivalent adjustments have been made. All average balances are daily average balances. Loans that are classified as non-accrual are included in the average balances in the table. Income from non-accrual loans is recognized when collected and is included in interest income on the following page.

For the Years Ended December 31,

	2023			2022			2021		
	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate
(Dollars in Thousands)									
Interest-earning assets:									
Interest-bearing deposits.....	\$ 10,153	\$ 501	4.93%	\$ 23,943	\$ 203	0.85%	\$ 72,063	\$ 93	0.13%
Loans receivable, net.....	703,568	34,583	4.92	640,968	26,753	4.17	606,121	26,400	4.36
Equity securities	267	4	1.50	330	2	0.61	330	1	0.30
Mortgage-backed securities.....	18,388	786	4.27	21,438	446	2.08	31,213	337	1.08
Investment securities	119,481	2,849	2.38	164,028	2,586	1.58	32,876	291	0.89
Restricted inv. in bank stock	4,640	403	8.69	5,103	267	5.23	4,498	252	5.60
Total interest-earning assets	<u>856,497</u>	<u>39,126</u>	<u>4.57</u>	<u>855,810</u>	<u>30,257</u>	<u>3.54</u>	<u>747,101</u>	<u>27,374</u>	<u>3.66</u>
Interest-bearing liabilities:									
Demand deposits	167,726	1,700	1.01	189,084	472	0.25	173,383	372	0.21
Savings deposits	200,951	4,017	2.00	227,380	1,249	0.55	198,292	651	0.33
Time deposits	200,766	6,747	3.36	144,558	2,082	1.44	145,415	2,091	1.44
Borrowings	117,697	3,572	3.03	118,850	2,656	2.23	98,823	2,084	2.11
Junior subordinated debentures.....	2,817	165	5.86	3,804	211	5.55	9,790	536	5.47
Total interest-bearing liabilities	<u>689,957</u>	<u>16,201</u>	<u>2.35</u>	<u>683,676</u>	<u>6,670</u>	<u>0.98</u>	<u>625,703</u>	<u>5,734</u>	<u>0.92</u>
Net interest income		<u>\$ 22,925</u>			<u>\$ 23,587</u>			<u>\$ 21,640</u>	
Net interest rate spread			<u>2.22%</u>			<u>2.56%</u>			<u>2.74%</u>
Net earning assets	<u>\$ 166,540</u>			<u>\$ 172,134</u>			<u>\$ 121,398</u>		
Net yield on average interest-earning assets			<u>2.68%</u>			<u>2.76%</u>			<u>2.90%</u>
Ratio of interest-earning assets to interest-bearing liabilities	<u>124.1%</u>			<u>125.2%</u>			<u>119.4%</u>		

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (a) changes in volume (*i.e.*, changes in volume multiplied by old rate) and (b) changes in rate (*i.e.*, changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	For the Years Ended December 31, 2023 v. 2022			For the Years Ended December 31, 2022 v. 2021		
	Increase/Decrease Due to		Total Increase/ Decrease	Increase/Decrease Due to		Total Increase/ Decrease
	Volume	Rate		Volume	Rate	
	(In Thousands)					
Interest-earning assets:						
Interest-bearing deposits.....	\$ (117)	\$ 415	\$ 298	\$ (63)	\$ 173	\$ 110
Loans receivable, net	2,610	5,220	7,830	1,519	(1,166)	353
Mortgage-backed securities	63	277	340	(105)	214	109
Investment securities	(704)	969	265	1,167	1,129	2,296
Restricted inv. in bank stock.....	(24)	160	136	34	(19)	15
Total interest-earning assets	<u>1,828</u>	<u>7,041</u>	<u>8,869</u>	<u>2,552</u>	<u>331</u>	<u>2,883</u>
Interest-bearing liabilities:						
Demand deposits.....	(53)	1,281	1,228	33	67	100
Savings deposits.....	(145)	2,913	2,768	96	502	598
Time deposits	809	3,856	4,665	(12)	3	(9)
Borrowings.....	(26)	942	916	423	149	572
Junior subordinated debentures	(55)	9	(46)	(327)	2	(325)
Total interest-bearing liabilities.....	<u>530</u>	<u>9,001</u>	<u>9,531</u>	<u>213</u>	<u>723</u>	<u>936</u>
Net interest income	<u>\$ 1,298</u>	<u>\$ (1,960)</u>	<u>\$ (662)</u>	<u>\$ 2,339</u>	<u>\$ (392)</u>	<u>\$ 1,947</u>

Comparison of Operating Results for the Years Ended December 31, 2023 and 2022

Net Income

For the year ended December 31, 2023, we reported net income of \$9.3 million, or \$1.42 per diluted share for a return on average assets of 1.03% and a return on average equity of 10.68%. For the year ended December 31, 2022, we reported net income of \$10.1 million, or \$1.57 per diluted share for a return on average assets of 1.13% and a return on average equity of 12.71%. The decrease in net income for the year ended December 31, 2023 was primarily the result of a decrease in net interest income and an increase in non-interest expense.

Net Interest Income

Net interest income, which is the sum of interest and certain loan origination fees generated by interest-earning assets minus interest paid on deposits and other funding sources, is the principal source of our earnings. Net interest income decreased \$662,000, or 2.8%, to \$22.9 million for the year ended December 31, 2023, as compared to \$23.6 million for the year ended December 31, 2022. Average interest-earning assets increased to \$856.5 million for the year ended December 31, 2023, an increase of \$687,000, or 0.1%, as compared to the average of \$855.8 million for the year ended December 31, 2022. Average interest-bearing liabilities increased to \$690.0 million for the year ended December 31, 2023, an increase of \$6.3 million, or 0.9%, compared to the average of \$683.7 million for the year ended December 31, 2022.

The decrease in net interest income was primarily due to increased interest expense paid to depositors and on short-term borrowings despite interest rate increases in our loan and investment portfolios.

The yield on average interest-earning assets was 4.57% for the year ended December 31, 2023, an increase of 103 basis points from the yield of 3.54% for the year ended December 31, 2022. The cost of funds was 2.35% for the year ended December 31, 2023, an increase of 137 basis points from the cost of funds of 0.98% for the year ended December 31, 2022. The increase in the cost of funds was primarily due to increases in interest rates paid on deposit products and our increased reliance on overnight borrowings to fund loan originations and investment purchases.

Net interest margin (net interest income as a percentage of average interest-earning assets) decreased 8 basis points to 2.68% for the year ended December 31, 2023, as compared 2.76% for the year ended December 31, 2022.

Provision for Credit Losses

On January 1, 2023, we adopted the new accounting standard, referred to as “CECL,” which replaced our previous incurred loss model based on historical loss experience and economic and market conditions to the current expected credit loss model. The CECL standard reflects expected credit losses over the expected life of the financial assets and commitments. Economic forecasts are also incorporated into the model.

The provision for credit losses includes a provision for losses on loans and unfunded commitments. The provision provides for losses inherent in the financial assets as determined by a quarterly analysis and calculation of various factors related to financial assets. The amount of the provision expense reflects the adjustment management determines necessary to ensure the ACL is adequate to cover any losses inherent in the financial assets.

For the year ended December 31, 2023, there was a release of the allowance for credit losses for loans in the amount of \$147,000, which was a decrease of \$535,000, or 137.9%, from the provision for credit losses of \$388,000 recorded for the year ended December 31, 2022. For the year ended December 31, 2023, there was also a release of the allowance for credit losses for unfunded commitments in the amount of \$12,000. The total release of the allowance for credit losses in 2023 in the amount of \$159,000 was primarily due to decreases in qualitative factors in the allowance for credit losses calculation.

During the year 2023, we charged off two loans totaling \$5,000 and received \$1,000 in recoveries of previously charged-off loans. During the year 2022, we charged off one loan totaling \$10,000 and received \$18,000 in recoveries on previously charged-off loans.

While the credit quality of our loan portfolio has remained very strong, as evidenced by our level of past-due, non-accruing and charged-off loans, management recognizes the possibility for deterioration in credit quality. At December 31, 2023, the allowance for credit losses as a percentage of total gross loans was 1.00% compared to 1.35% at December 31, 2022. This decrease was impacted by the adoption of the CECL standard. Management considers the allowance for credit losses at December 31, 2023 to be adequate for the inherent risks of loss in the loan portfolio at that date.

Please refer to Note 7 – Allowance for Credit Losses for further information.

Non-Interest Income

Total non-interest income for the year ended December 31, 2023 was \$1.8 million, an increase of \$25,000, or 1.4%, from the \$1.7 million for the year ended December 31, 2022. Service fees on deposit accounts increased \$66,000 or 57.9% to \$180,000 for the year ended December 31, 2023 from \$114,000 for the year ended December 31, 2022. Loan swap fees were \$74,000 for the year ended December 31, 2023 as compared to \$31,000 for the year ended December 31, 2022. Net gains on sales of residential mortgage loans decreased \$120,000 to \$15,000 during 2023, the result of the Bank originating only \$872,000 in loans to be sold on the secondary market compared to \$7.0 million in 2022. For the year ended December 31, 2023, net gains on equity securities were \$12,000, which consisted of \$462,000 in net gains realized on sales of equity securities and \$450,000 in net unrealized losses on equity securities. For the year ended December 31, 2022, net gains on equity securities were \$112,000, which consisted of \$18,000 in net gains realized on sales of equity securities and \$94,000 in unrealized gains on equity securities. We also recorded a \$24,000

loss on the sale of an investment security in 2023. Earnings on bank-owned life insurance were \$549,000 at December 31, 2023, an increase of \$57,000 compared to 2022. Other income is comprised primarily of income from automated teller machine fees, safe deposit box rental fees, wire transfer fees, sales of checks and checkbooks, rental income, mark-to-market adjustments on interest rate swaps, and miscellaneous fee income on loans. Other income increased \$103,000 to \$962,000 for the year ended December 31, 2023 from \$859,000 for the year ended December 31, 2022, which was primarily due rental income received at our principal office.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2023 increased \$946,000, or 7.7%, to \$13.2 million as compared to \$12.2 million for the year ended December 31, 2022. Salaries and employee benefits for the year ended December 31, 2023 totaled \$7.0 million, an increase of \$160,000 as compared to salaries and employee benefits for the year ended December 31, 2022. The increase was primarily the result of higher employee benefit costs and merit pay increases. Occupancy expense increased \$560,000 to \$1.3 million for the year ended December 31, 2023 compared to 2022 primarily due to costs associated with leasing space for our principal office. Equipment and data processing expense increased \$209,000 to \$1.1 million for the year ended December 31, 2023 compared to 2022. Equipment and data processing expense was higher in 2023 due to additional costs for the new leased location. Other changes in non-interest expense categories from the period ending December 31, 2022 to December 31, 2023 were as follows: Hosted services increased \$83,000 to \$431,000; Professional fees increased \$14,000 to \$418,000; Pennsylvania bank shares tax expense decreased \$68,000 to \$649,000; Federal deposit insurance expense increased \$150,000 to \$407,000; and Other expense decreased \$162,000 to \$2.0 million.

Income Tax Expense

Income tax expense decreased \$233,000 or 9.0% to \$2.3 million for the year ended December 31, 2023 compared to 2022. Income before income tax expense was \$1.0 million lower for the year ended December 31, 2023 than the prior year, which contributed to the decrease in income tax expense. The effective income tax rate for the year ended December 31, 2023 was 20.1%, compared to 20.3% for the year ended December 31, 2022.

Comparison of Financial Condition at December 31, 2023 and 2022

Overview

Total Assets

Total assets decreased to \$918.9 million at December 31, 2023 from \$927.3 million at December 31, 2022, a decrease of \$8.4 million, or 0.9%.

Cash and Cash Equivalents

Cash and cash equivalents increased \$23.0 million, or 139.9%, to \$39.5 million at December 31, 2023 compared to \$16.5 million at December 31, 2022. This increase was primarily to enhance our liquidity position. Proceeds of investment securities maturing near year end were held for future loan originations and investment purchases.

Equity Securities

Equity securities were \$0 and \$774,000 at December 31, 2023 and 2022, respectively. During 2023, we recorded \$462,000 in net gains realized on sales of equity securities and \$450,000 in net unrealized losses on equity securities. During 2022, we recorded \$18,000 in net gains realized on sales of equity securities and \$94,000 in unrealized gains on equity securities.

Investment Securities

Investment securities available-for-sale decreased \$107.8 million or 53.8% to \$92.6 million at December 31, 2023 compared to \$200.4 million at December 31, 2022. The decrease was due to the Bank's decision to pay down borrowings with proceeds from maturing investments.

Proceeds from the sale of an investment security available-for-sale totaled \$4,976,000, and the gross realized loss on the one sold investment security totaled \$24,000 in 2023. There were no sales of investment securities available-for-sale for the year ended December 31, 2022.

We concluded that the decline in fair value of the investment securities in an unrealized loss position as of December 31, 2023 was not indicative of a credit loss. No investment securities in the portfolio required an allowance for credit losses to be recorded during the year ended December 31, 2023, and no impairment was recorded during the year ended December 31, 2022.

Loans Receivable

Loans receivable, net of the allowance for credit losses and deferred origination fees and costs, was \$732.2 million at December 31, 2023, an increase of \$78.5 million, or 12.0%, compared to the December 31, 2022 balance of \$653.7 million. Loans receivable represented 79.7% of total assets at December 31, 2023, compared to 70.5% of total assets at December 31, 2022.

Commercial, industrial and other loans (not secured by real estate) increased \$5.5 million, or 6.8%, to \$86.9 million at December 31, 2023, from \$81.4 million at December 31, 2022. Commercial mortgage loans increased \$46.9 million, or 9.3%, to \$549.0 million at December 31, 2023, compared to \$502.1 million at December 31, 2022. Commercial construction loans increased \$7.7 million, or 17.7%, to \$51.1 million at December 31, 2023, compared to \$43.4 million at December 31, 2022.

The commercial loan portfolio experienced \$60.1 million in net growth resulting from our continued efforts to expand our share of the commercial loan market for small and medium sized businesses in the Lehigh Valley and the Philadelphia area. Our success in generating loans reflects the improving economy of the Lehigh Valley during the year 2023.

In 2023, we originated \$141.3 million in commercial, commercial mortgage and commercial construction loans, but experienced \$38.0 million in payoffs.

Residential mortgage loans totaled \$40.9 million at December 31, 2023, an increase of \$16.5 million, or 67.6%, compared to \$24.4 million at December 31, 2022. The increase was the result of the Bank keeping residential loans in portfolio instead of selling them into the secondary market. We originated \$18.3 million of residential mortgage loans with terms of 15 to 30 years during 2023 and sold or have contracts to sell \$887,000 to the secondary market.

Consumer loans increased \$340,000, or 3.1%, to \$11.4 million at December 31, 2023, from \$11.1 million at December 31, 2022.

Allowance for Credit Losses

We adopted FASB ASC Topic 326, in accordance with the amendments of FASB ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC 326” or “CECL”), effective January 1, 2023. The guidance in ASC 326 replaces our previous incurred loss methodology with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit losses.

We have established an allowance for credit losses as an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions, and forecasts of future economic conditions. Changes to the allowance for credit losses are recorded through the provision for credit losses.

We run the allowance model on a monthly basis, and we qualitatively adjust model results for risk factors that are not considered within the quantitative portion of the model but which are relevant in assessing the expected credit losses within the loan pools. Qualitative factors include, but are not limited to, volume of past-due loans, national and economic conditions that may have an impact on credit quality, and nature and volume of the loan portfolio.

At December 31, 2023 and December 31, 2022, we had an allowance for credit losses of \$7.4 million and \$8.9 million, respectively. Management believes that the allowance for credit losses at December 31, 2023 was sufficient to absorb losses inherent in the portfolio at that date. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance for credit losses may be necessary and the results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions we used in making the determinations. Furthermore, while we believe we have established our existing allowance for credit losses in accordance with U.S. generally accepted accounting principles (“GAAP”), there can be no assurance that the Pennsylvania Department of Banking or the Board of Governors of the Federal Reserve System, in reviewing our loan portfolio, will not request us to increase our allowance for credit losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for credit losses is adequate or that material increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for credit losses may adversely affect our financial condition and results of operations.

Please refer to Note 2 – Significant Accounting Policies and Note 7 – Allowance for Credit Losses for further information.

Deposits

Total deposits increased \$34.1 million, or 5.1%, to \$701.5 million at December 31, 2023 from the December 31, 2022 balance of \$667.4 million. Non-interest bearing demand deposits decreased \$26.3 million, or 22.1%, to \$92.7 million, at December 31, 2023, compared to \$119.0 million at December 31, 2022. Interest-bearing checking accounts increased \$13.1 million, or 7.1%, to \$197.2 million, at December 31, 2023, compared to \$184.1 million at December 31, 2022. Savings deposits, including money market accounts, decreased \$31.3 million, or 14.4%, to \$186.2 million at December 31, 2023, from the balance of \$217.5 million at December 31, 2022. Total certificates of deposit increased \$78.6 million, or 53.5%, to \$225.4 million, at December 31, 2023 from the December 31, 2022 balance of \$146.8 million.

Short-Term Borrowings

Short-term borrowings amounted to \$61.7 million and \$101.8 million at December 31, 2023 and 2022, respectively.

The Bank had an outstanding balance of FHLB overnight borrowings of \$0 and \$54.1 million as of December 31, 2023 and 2022, respectively.

We also have the ability to borrow funds from the FHLB at a fixed rate secured by the master agreement. In 2020, we secured a \$10.0 million fixed rate advance with a three-month maturity, and upon its maturity, we secured an additional \$10.0 million three-month fixed rate advance. We intend to continue securing a \$10.0 million three-month fixed rate advance until the maturity of our cash flow hedge on February 28, 2030. Please refer to Note 23 – Derivatives and Hedging Activities for further information about our cash flow hedge.

We also have borrowing capacity with the Federal Discount Window of \$1,858,000 and \$1,996,000 at December 31, 2023 and 2022, respectively. We did not have an outstanding balance of the Federal Discount Window during 2023 or 2022.

In March 2023, the Federal Reserve Bank established the Bank Term Funding Program (the “BTFP”) as an additional source of liquidity against high-quality securities. The Bank had an outstanding balance of BTFP borrowings of \$41,000,000 as of December 31, 2023. During 2023, the Bank continued its reliance on overnight borrowings to fund loan originations and investment purchases.

We have also secured a \$10.0 million revolving line of credit with a maturity date of September 14, 2023 with another financial institution, which was extended to September 14, 2024. At December 31, 2023, we were in compliance with these covenants, and the outstanding balance on the line of credit was \$10.0 million and \$0 at December 31, 2023 and 2022, respectively.

Securities sold under agreements to repurchase totaled \$681,000 at December 31, 2023, a decrease of \$37.0 million, or 98.2%, from \$37.7 million at December 31, 2022.

Long-Term Borrowings

Long-term borrowings with the FHLB consisted of \$45.0 million at December 31, 2023 and \$55.0 million at December 31, 2022. The \$45.0 million outstanding at December 31, 2023 consists of fixed maturity advances with maturity dates ranging from March 26, 2024 to February 7, 2028. Interest rates on these advances range from 2.49% to 3.65%, with a weighted-average rate of 3.10%. Please refer to Note 11 – Long-Term Borrowings for our maximum borrowing capacity with FHLB.

Junior Subordinated Debentures

On April 26, 2002, American Bank Incorporated issued a \$10.5 million principal amount of 6.0% junior subordinated debentures due March 31, 2032 to American Capital Trust I. Preferred securities were convertible into 317,030 shares of common stock at December 31, 2023. We retired 2,500 shares of trust-preferred securities during 2023. We also converted 6,936 shares of trust-preferred securities to common shares during 2023. Please refer to Note 12 – Subordinated Debt for further information.

Stockholders' Equity

Stockholders' equity at December 31, 2023 was \$89.8 million, an increase of \$7.9 million, or 9.6%, from the December 31, 2022 balance of \$81.9 million. The increase was primarily the result of \$9.3 million in earnings, \$59,000 for the conversion of trust-preferred securities to common shares, and \$2.1 million impact of accumulated other comprehensive loss, offset by the payment of \$4.2 million of dividends on common stock.

Capital Resources and Liquidity

Our liquidity management objectives are to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for expansion. Liquidity management addresses the ability to meet deposit account withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise. Our primary sources of internally generated funds are principal and interest payments on loans receivable, cash flows generated from operations and cash flows generated by investments. External sources of funds include increases in deposits, advances from the FHLB and other borrowing lines of credit.

We monitor our liquidity position on an ongoing basis and report regularly to the Board of Directors the level of liquidity as compared to minimum levels established by Board policy. As of December 31, 2023, our level of liquidity was in excess of the minimum established by Board policy.

American Bank Incorporated and American Bank are subject to various regulatory capital adequacy requirements promulgated by the Pennsylvania Department of Banking and The Board of Governors of the Federal Reserve System. Failure to meet minimum capital requirements can result in certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, American Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require American Bank Incorporated and American Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, Tier 1 capital to average assets and Common Equity Tier 1 capital to risk-weighted assets.

As of December 31, 2023, American Bank Incorporated and American Bank exceeded all applicable capital adequacy requirements. The most recent notification from the Federal Reserve Bank categorized the Bank as “Well Capitalized” under the regulatory framework for prompt corrective action. Please refer to Note 20 – Regulatory Matters for further information.

Commitments and Off-Balance Sheet Obligations

Our consolidated financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist mainly of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. Unused commitments at December 31, 2023 totaled \$178.3 million. This consisted of \$26.3 million in commitments to fund commercial business, commercial real estate, residential real estate and commercial and residential construction loans, \$125.7 million under lines of credit, including \$14.0 million in home equity lines of credit, and \$26.3 million in standby letters of credit. Because these commitments have a fixed maturity date and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to us.

Management believes that any amounts actually drawn upon can be funded in the normal course of operations. American Bank Incorporated has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

Contractual Obligations and Capital Resources

The following table represents our contractual obligations to make future payments as of December 31, 2023.

	Due by December 31, 2024	Due after December 31, 2024 through December 31, 2026	Due after December 31, 2026 through December 31, 2028	Due after December 31, 2028	Total
	(In Thousands)				
Time deposits.....	\$ 210,580	\$ 10,759	\$ 4,149	\$ -	\$ 225,488
Short-term borrowings.....	61,681	-	-	-	61,681
Long-term borrowings.....	20,000	15,000	10,000	-	45,000
Junior subordinated debentures.....	-	-	-	2,760	2,760
Operating leases.....	212	480	529	1,235	2,456
Total.....	<u>\$ 292,473</u>	<u>\$ 26,239</u>	<u>\$ 14,678</u>	<u>\$ 3,995</u>	<u>\$ 337,385</u>

We are not aware of any known trends or any known demands, commitments, events or uncertainties which would result in any material increase or decrease in liquidity.

The greater the capital resources, the more likely we will be able to meet our cash obligations and unforeseen expenses. Stockholders' equity at December 31, 2023 totaled \$89.8 million and was in excess of our required regulatory capital levels.

Asset Quality

Non-Current Loans and Delinquencies

When a borrower fails to make a required payment on a loan, we attempt to cure the deficiency by contacting the borrower and seeking the payment. Late notices are mailed no more than 16 days after the payment is due. In most cases, deficiencies are cured promptly. If a delinquency continues, additional contact is made through written notice and direct contact from an assigned account officer. We will remain in continual contact with the borrower and, if needed, will attempt to work out a payment schedule acceptable to us and the borrower. While we generally prefer to work with borrowers to resolve such problems, we will institute foreclosure or other proceedings, as necessary, to minimize any potential loss.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income on a cash basis, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and 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 all classes of loans receivable is determined based on contractual due dates for loan payments. The Board of Directors is informed monthly of the status of all loans delinquent more than 15 days.

During the year ended December 31, 2023, we charged off two loans totaling \$5,000 and received \$1,000 in recoveries on previously charged-off loans. At December 31, 2023, we had fourteen loans with unpaid balances of \$3,306,000 that were delinquent 30 days or more, including two non-accruing relationships totaling \$3,164,000.

During the year ended December 31, 2019, we initiated formal foreclosure proceedings on a \$309,000 commercial loan. As of December 31, 2023, this property has not yet been transferred into foreclosed assets due to governmental delays experienced during the COVID-19 pandemic and an out-of-state foreclosure process. During the year ended December 31, 2023, we initiated formal foreclosure proceedings on a \$2,855,000 commercial mortgage loan relationship consisting of ten loans, and as of December 31, 2023, the properties have not yet been transferred into foreclosed assets.

Asset Classification

The Pennsylvania Department of Banking and Board of Governors of the Federal Reserve System have adopted various regulations regarding problem assets of banking institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, regulatory examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: "Substandard," "Doubtful" and "Loss." "Substandard" assets have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful" assets have the weaknesses of "Substandard" assets with the additional characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable based on existing circumstances. An asset classified as "Loss" is considered uncollectible or of such value that continuance as an asset is not warranted. If an asset or portion thereof is classified as "Loss," we must establish a specific allowance for credit losses for the amount of the portion of the asset classified as "Loss." All or a portion of general credit loss allowances established to cover possible losses related to assets classified "Substandard" or "Doubtful" can be included in determining our regulatory capital, while specific valuation allowances for credit losses generally do not qualify as regulatory capital. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as "Special Mention" and monitored by us.

At December 31, 2023, the aggregate amount of our assets classified as "Special Mention" and "Substandard" were \$455,000 and \$3.6 million, respectively, which consisted entirely of loans. No assets were classified as "Doubtful" or "Loss."

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of American Bank Incorporated have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

COMMON STOCK AND RELATED MATTERS

We began paying a cash dividend to stockholders in March 2004. We initially paid dividends annually on our common stock. We began paying dividends quarterly during 2006. Payment of dividends on American Bank Incorporated's common stock is subject to determination and declaration by the Board of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, American Bank Incorporated's results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that cash dividends will continue to be declared and paid or, if declared, what the amount of dividends will be.

Our shares of common stock are listed for trading on the OTC Pink under the symbol "AMBK." As of March 12, 2024, we had five registered market makers, 211 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 6,323,934 shares outstanding.

The following tables set forth market price and dividend information for the common stock for the last two fiscal years.

<u>Year Ended December 31, 2023</u>	<u>High</u>	<u>Low</u>	<u>Cash Dividends Declared</u>
Fourth Quarter	\$ 17.85	\$ 16.55	\$ 0.14
Third Quarter	18.73	16.66	0.14
Second Quarter	17.30	16.16	0.24
First Quarter	19.50	16.75	0.14

<u>Year Ended December 31, 2022</u>	<u>High</u>	<u>Low</u>	<u>Cash Dividends Declared</u>
Fourth Quarter	\$ 17.93	\$ 15.75	\$ 0.14
Third Quarter	18.05	15.50	0.14
Second Quarter	17.00	15.50	0.22
First Quarter	16.75	15.55	0.12



INDEPENDENT AUDITOR'S REPORT

Board of Directors
American Bank Incorporated
Allentown, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of American Bank Incorporated and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

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PHILADELPHIA, PA

2100 Renaissance Blvd. • Suite 110
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WHEELING, WV

980 National Road
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Steubenville, OH 43952
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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



King of Prussia, Pennsylvania
March 15, 2024

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AMERICAN BANK INCORPORATED

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2023	2022
	(In Thousands, Except Share and Per Share Data)	
ASSETS		
Cash and due from banks	\$ 3,246	\$ 2,879
Interest-bearing deposits with other banks	36,256	13,586
Total cash and cash equivalents	39,502	16,465
Equity securities	-	774
Investment securities available-for-sale, at fair value (net of allowance for credit losses of \$0 in 2023 and 2022)	92,635	200,442
Loans receivable, net of allowance for credit losses (2023 – \$7,408; 2022 – \$8,911)	732,180	653,686
Restricted investment in bank stock	3,904	6,607
Bank-owned life insurance	23,406	22,857
Premises and equipment, net	11,736	11,397
Accrued interest receivable	3,049	2,650
Other assets	12,465	12,406
Total Assets	\$ 918,877	\$ 927,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 92,727	\$ 118,992
Interest-bearing	608,811	548,485
Total deposits	701,538	667,477
Short-term borrowings	61,681	101,767
Long-term borrowings	45,000	55,000
Junior subordinated debentures	2,760	2,861
Accrued interest payable	1,510	480
Other liabilities	16,577	17,791
Total Liabilities	829,066	845,376
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.10 per share; authorized 15,000,000 shares in 2023 and 2022; issued 7,632,555 in 2023 and 2022; outstanding 6,325,221 in 2023 and 6,330,915 in 2022	763	763
Paid-in capital	35,615	35,577
Treasury stock, at cost, 1,307,334 shares in 2023 and 1,301,640 shares in 2022	(11,923)	(11,750)
Allocated but unvested shares in SERP, at cost, 30,850 shares in 2023 and 28,748 shares in 2022	(311)	(273)
Retained earnings	67,049	61,070
Accumulated other comprehensive loss	(1,382)	(3,479)
Total Stockholders' Equity	89,811	81,908
Total Liabilities and Stockholders' Equity	\$ 918,877	\$ 927,284

See notes to consolidated financial statements.

AMERICAN BANK INCORPORATED

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2023	2022
	(In Thousands, Except Per Share Data)	
INTEREST INCOME		
Loans receivable, including fees	\$ 34,583	\$ 26,753
Investment securities	3,639	3,034
Restricted investment in bank stock	403	267
Interest-bearing deposits with other banks	501	203
Total interest income	39,126	30,257
INTEREST EXPENSE		
Deposits	12,464	3,803
Short-term borrowings	1,985	769
Long-term borrowings	1,587	1,887
Junior subordinated debentures	165	211
Total interest expense	16,201	6,670
Net interest income	22,925	23,587
(RELEASE OF) PROVISION FOR CREDIT LOSSES	(159)	388
Net interest income after (release of) provision for credit losses	23,084	23,199
NON-INTEREST INCOME		
Service fees	180	114
Loan swap fees	74	31
Net gains on sales of residential mortgage loans	15	135
Net gains on equity securities	12	112
Net loss on sale of investment security	(24)	-
Earnings on bank-owned life insurance	549	492
Other	962	859
Total non-interest income	1,768	1,743
NON-INTEREST EXPENSE		
Salaries and employee benefits	6,951	6,791
Occupancy, net	1,253	693
Equipment and data processing	1,136	927
Hosted services	431	348
Professional services	418	404
Pennsylvania bank shares tax	649	717
Federal deposit insurance	407	257
Other	1,950	2,112
Total non-interest expense	13,195	12,249
Income before income tax expense	11,657	12,693
INCOME TAX EXPENSE	2,345	2,578
Net income	\$ 9,312	\$ 10,115
PER SHARE DATA		
Net earnings per common share:		
Basic	\$ 1.48	\$ 1.63
Diluted	\$ 1.42	\$ 1.57
Dividends paid per share	\$ 0.66	\$ 0.60

See notes to consolidated financial statements.

AMERICAN BANK INCORPORATED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
Net income	\$ 9,312	\$ 10,115
Other comprehensive income (loss):		
Investment securities available-for-sale:		
Unrealized holding gains (losses) on available-for-sale investment securities	2,941	(5,961)
Tax effect	(617)	1,251
Reclassification adjustment for losses on available-for-sale investment securities	(24)	-
Tax effect	5	-
Net of tax amount	<u>2,305</u>	<u>(4,710)</u>
Derivatives and hedging activities adjustments:		
Changes in unrealized gain on derivatives	151	1,437
Tax effect	(31)	(301)
Reclassification adjustment for gains on derivatives included in net income	(415)	(24)
Tax effect	87	5
Net of tax amount	<u>(208)</u>	<u>1,117</u>
Other comprehensive income (loss), net of tax	<u>2,097</u>	<u>(3,593)</u>
Comprehensive income	<u>\$ 11,409</u>	<u>\$ 6,522</u>

See notes to consolidated financial statements.

AMERICAN BANK INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

(In Thousands, Except Share and Per Share Data)

	Shares of Common Stock Outstanding	Common Stock	Paid-In Capital	Treasury and SERP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE – DECEMBER 31, 2021	5,964,910	\$ 763	\$ 35,677	\$ (15,126)	\$ 54,822	\$ 114	\$ 76,250
Net income	-	-	-	-	10,115	-	10,115
Other comprehensive loss	-	-	-	-	-	(3,593)	(3,593)
Compensation exp on stock options	-	-	72	-	-	-	72
Exercise of stock options	3,000	-	8	27	-	-	35
Purchase of shares into Treasury	(22,757)	-	-	(392)	-	-	(392)
Sale of SERP shares	-	-	-	8	-	-	8
Retirement of trust-preferred shares	-	-	-	-	(9)	-	(9)
Conversion of trust-preferred shares to common shares	385,762	-	(180)	3,460	-	-	3,280
Dividends declared – \$0.62 per share	-	-	-	-	(3,858)	-	(3,858)
BALANCE – DECEMBER 31, 2022	6,330,915	763	35,577	(12,023)	61,070	(3,479)	81,908
Net income	-	-	-	-	9,312	-	9,312
Other comprehensive income	-	-	-	-	-	2,097	2,097
Cumulative effect of adoption of ASU 2016-13	-	-	-	-	862	-	862
Compensation exp on stock options	-	-	36	-	-	-	36
Exercise of stock options	2,000	-	6	18	-	-	24
Purchase of shares into Treasury	(16,130)	-	-	(305)	-	-	(305)
Treasury shares released to ESOP	1,500	-	-	13	-	-	13
Retirement of trust-preferred shares	-	-	-	-	(20)	-	(20)
Conversion of trust-preferred shares to common shares	6,936	-	(4)	63	-	-	59
Dividends declared – \$0.66 per share	-	-	-	-	(4,175)	-	(4,175)
BALANCE – DECEMBER 31, 2023	6,325,221	\$ 763	\$ 35,615	\$ (12,234)	\$ 67,049	\$ (1,382)	\$ 89,811

See notes to consolidated financial statements.

AMERICAN BANK INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 9,312	\$ 10,115
Adjustments to reconcile net income to net cash provided by operating activities:		
(Release of) provision for credit losses	(159)	388
Provision for depreciation	542	441
Proceeds from sales of residential mortgage loans	887	8,022
Net gains on sales of residential mortgage loans	(15)	(135)
Loans originated for sale	(872)	(6,981)
Net amortization of deferred loan costs	(90)	(232)
Net accretion of investment securities premiums and discounts	(844)	(376)
Net loss on sale of investment security	24	-
Net gains on sales of equity securities	(462)	(18)
Net losses (gains) on equity securities	450	(94)
Compensation expense on stock options	36	72
Earnings on bank-owned life insurance	(549)	(492)
(Increase) decrease in deferred taxes	(312)	41
Increase in other assets and accrued interest receivable	(932)	(7,648)
(Decrease) increase in other liabilities and accrued interest payable	(769)	16,138
Net cash provided by operating activities	<u>6,247</u>	<u>19,241</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale investment securities:		
Purchases	(6,389)	(191,895)
Maturities, calls and principal repayments	112,957	63,709
Sales	4,976	-
Proceeds from maturity of held-to-maturity investment securities	-	200
Proceeds from sales of equity securities	1,041	24
Purchases of equity securities	(255)	-
Purchase of bank-owned life insurance	-	(800)
Net increase in loans receivable	(76,831)	(47,270)
Purchases of restricted investment in bank stock	(3,218)	(6,812)
Redemption of restricted investment in bank stock	5,921	4,706
Purchases of premises and equipment	(881)	(512)
Net cash provided by (used in) investing activities	<u>37,321</u>	<u>(178,650)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in demand and savings deposits	(44,596)	4,178
Net increase in time deposits	78,657	2,419
Net (decrease) increase in short-term borrowings	(40,086)	64,303
Repayment of long-term borrowings	(10,000)	(10,000)
Purchase of shares into Treasury	(305)	(392)
Treasury shares released to ESOP	13	-
Retirement of trust-preferred shares	(20)	(9)
Sale of SERP shares	-	8
Exercise of stock options	24	35
Repayment of junior subordinated debentures	(101)	(3,338)
Conversion of trust-preferred securities to common shares	59	3,280
Dividends paid to shareholders	(4,176)	(3,703)
Net cash (used in) provided by financing activities	<u>(20,531)</u>	<u>56,781</u>
Net increase (decrease) in cash and cash equivalents	23,037	(102,628)
CASH AND CASH EQUIVALENTS – BEGINNING	16,465	119,093
CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 39,502</u>	<u>\$ 16,465</u>

See notes to consolidated financial statements.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

American Bank Incorporated (the “Company”) was formed to become the holding company of American Bank (the “Bank”), a wholly owned subsidiary. American Capital Trust I is a financing subsidiary of American Bank Incorporated, and the purpose of the trust was to issue shares of convertible preferred securities to the public. AB Building LLC, AMBK Services LLC and AMBK Real Estate LLC are operating subsidiaries of American Bank. The purpose of AB Building LLC is to hold real estate, leasehold improvements or other property qualifying as bank premises, the purpose of AMBK Services LLC is to pay compensation and benefits for employees of the subsidiary, and the purpose of AMBK Real Estate LLC is to hold title to real estate or leasehold interest acquired for prior debt. The consolidated financial statements include the accounts of American Bank Incorporated, American Bank and American Capital Trust I. All significant intercompany accounts and transactions have been eliminated. The Company is subject to regulation and supervision by the Federal Reserve Bank.

The Bank was incorporated under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank provides a full range of banking services. The Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Reserve Bank.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the presentation of the accompanying financial statements follows:

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (“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 Consolidated Balance Sheets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

Significant Concentrations of Credit Risk

The Company maintains its principal office and a branch location in Allentown, Pennsylvania and a loan production office in Blue Bell, Pennsylvania. The Bank’s local service area includes Lehigh and Northampton counties, along with portions of Carbon, Berks, Bucks, Montgomery, Delaware and Philadelphia counties in Pennsylvania. Applications can be received online for consumer and residential mortgage loans. Note 4 – Equity Securities and Note 5 – Investment Securities discuss the types of securities in which the Company invests. Note 6 – Loans Receivable discusses the types of lending in which the Company engages. Excluding commercial real estate loans, the Company does not have any significant concentrations to any one industry or customer except for \$68.5 million in loans to the Accommodation and Food Services Industry, which included \$46.7 million to the Hotel Industry. Although the Company has a diversified loan portfolio, its debtors’ ability to honor their contracts is influenced by their local economy.

Segment Reporting

The Company’s subsidiary, American Bank, operates as an independent community banking provider, and offers traditional banking services to individuals, business, government, and public and institutional customers. The Company offers a full array of commercial and financial products, including the taking of time, savings and demand deposits, and the making of commercial, residential mortgage and consumer loans. Management does not separately allocate expenses, including the cost of funding loan demand between the commercial, residential mortgage and consumer banking operations. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Cash and Cash Equivalents**

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and interest-bearing deposits with other banks with original maturities of 90 days or less.

Equity Securities

Equity securities consist of common stocks of public companies that the Company has the positive intent and ability to hold for an indeterminable amount of time. Such securities are reported at fair value. All increases and decreases in equity securities' value is recorded in non-interest income in the Consolidated Statements of Income.

Investment Securities

Management determines the appropriate classification of its investment in debt securities ("investment securities") as either "available-for-sale" or "held-to-maturity" at the time of purchase and reevaluates such designation as of each Consolidated Balance Sheet date. Investment securities are accounted for on a trade date basis. The Company did not have any investment securities classified as held-to-maturity at December 31, 2023 and 2022.

Investment securities classified as available-for-sale are those investment securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Investment securities available-for-sale are carried at fair value. Any decision to sell an investment security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Unrealized gains or losses, net of the related deferred tax effect, are included in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings in net gains (losses) on sales of investment securities on the Consolidated Statements of Income. Premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities.

Allowance for Credit Losses – Available-for-Sale Investment Securities

FASB ASC 326-30, "Financial Instruments – Credit Loss – Available-for-Sale Debt Securities," requires the Company to measure expected credit losses on available-for-sale investment securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the investment security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the investment security's amortized cost basis is written down to fair value through income. For available-for-sale investments that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the investment security by a rating agency, and adverse conditions specifically related to the investment security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the investment security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in accumulated other comprehensive income (loss).

The allowance for credit losses on available-for-sale investment securities is included within investment securities available-for-sale on the Consolidated Balance Sheets. Changes in the allowance for credit losses are recorded within the provision for credit losses on the Consolidated Statements of Income. Losses are charged against

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities (Continued)

the allowance when the Company believes the collectability of an available-for-sale investment security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale investment securities totaled \$484,000 at December 31, 2023 and is included within accrued interest receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of credit losses.

Credit Losses in Investment Securities – Prior to Adopting ASU 2016-13

The Company adopted FASB ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements” effective January 1, 2023. Financial statement amounts related to investment securities recorded as of December 31, 2022 and for the periods ending December 31, 2022 are presented in accordance with the following accounting policy.

Investment securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security’s ability to recover any decline in its market value, and whether or not the Company intends to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within non-interest income in the Consolidated Statements of Income.

Restricted Investment in Bank Stock

The Company owns restricted stock investments in the Federal Home Loan Bank of Pittsburgh (“FHLB”), the Federal Reserve Bank of Philadelphia (“FRB”), and the Atlantic Community Bancshares, Inc. (“ACB”). These restricted stocks are reflected on the Consolidated Balance Sheets at cost. At December 31, 2023, the Bank held \$2,697,000 in stock at FHLB, \$1,182,000 in stock at FRB, and \$25,000 in stock at ACB. At December 31, 2022, the Bank held \$5,431,000 in stock at FHLB, \$1,151,000 in stock at FRB, and \$25,000 in stock at ACB.

Under the Bank’s membership agreement with the FHLB, required stock purchases are based on a percentage of outstanding borrowings and a percentage of unused borrowing capacity and may also include a percentage of assets sold to the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value.

These restricted stocks do not have a readily determinable fair value and as such are classified as restricted investment in bank stock, are carried at cost and evaluated for impairment as necessary. The restricted stocks’ value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the restricted stocks and concluded that the restricted stocks were not impaired for the periods presented herein.

Loans Held for Sale

Residential mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by a

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Loans Held for Sale (Continued)**

charge against income. Gains and losses on sales of residential mortgage loans are included in non-interest income on the Consolidated Statements of Income. Servicing rights are not retained on residential mortgage loans sold.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan.

Accrued interest receivable totaled \$2,408,000 at December 31, 2023 and is included within accrued interest receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of credit losses.

The loans receivable portfolio is segmented into commercial, industrial and other (“commercial”), commercial mortgage, commercial construction, residential mortgage and consumer portfolios. Additionally, management monitors credit quality and determines the adequacy of the allowance for credit losses using these segments.

Commercial, Industrial and Other Lending

The Company originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes, which include term loans and lines of credit to finance machinery and equipment, inventory, accounts receivable and working capital. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and reviewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum thresholds have been established by the Company and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, business financial statements, collateral appraisals, etc. Commercial and industrial loans are typically guaranteed by any individual owning 20% or more of the borrower.

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower’s balance sheet and capacity to repay the loan, the adequacy of the borrower’s capital and collateral, as well as the conditions affecting the borrower. Evaluation of the borrower’s character and past, present and future cash flows is also an important aspect of the Company’s analysis of the borrower’s ability to repay.

Commercial and industrial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions. Commercial and industrial loans are primarily made on the basis of the borrower's ability to make repayment from cash flows from the borrower's primary business activities. As a result, the availability of funds for the repayment of commercial and industrial loans is dependent on the success of the business itself, which in turn, is likely to be dependent upon the general economic environment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Loans Receivable (Continued)***Commercial Mortgage Lending*

The Company engages in commercial real estate lending in its primary market area and surrounding areas. The Company's commercial real estate portfolio is secured primarily by commercial retail space, commercial and medical office buildings, commercial warehouses and industrial buildings, storage units, multi-family residential housing and hotels. Generally, commercial real estate loans have terms that do not exceed ten years, have loan-to-value ratios of eighty percent or less of the value of the collateral property, and are typically guaranteed by the owners of the borrower(s).

In underwriting these loans, the Company performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. The value of the property is determined primarily by independent appraisers and in some cases internal evaluations by the Bank's credit department. Global cash flow of the borrower, guarantors, and guarantor's net worth, liquidity and contingent liabilities are also taken into consideration.

Commercial real estate loans generally present a higher level of risk than residential real estate secured loans. Repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project and/or the effect of the general economic conditions on income producing properties.

The Company also engages in owner occupied commercial real estate. These credits are evaluated along the same guidelines as commercial and industrial lending as the owner's business is the primary source of repayment for the loan. Loan-to-value ratios of eighty percent or less of the collateral property are typical and are additionally secured by personal guarantees of the owners as well as the operating entity.

Commercial Construction Lending

A commercial construction loan is made on the security of a real estate mortgage, the proceeds of which are funded periodically to pay for the costs of construction as construction progresses. The collateral value of the loan is based upon the timely completion of the project. Primary source of repayment is the "takeout" permanent mortgage at the completion of the project or the terming out of the loan, with interest on the construction loan funded by business cash flow or a Bank-funded interest reserve. This segment also includes raw land loans and loans for partially or fully approved land and/or partially or fully improved land for residential and commercial purposes.

The level of risk associated with commercial construction lending is slightly higher than that of commercial mortgage lending due to the risks associated with managing a construction project. Loans for partially or fully approved land and/or partially or fully improved land also carry a higher level of risk due to risk of development approvals and ultimate construction of the project.

Residential Mortgage Lending

The Company's residential real estate portfolio is comprised of one-to-four family residential mortgage loan originations. These loans are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within or with customers from the Company's marketing area.

The Company's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The Company offers fixed-rate mortgage and adjustable-rate mortgage loans with terms up to a maximum of thirty years for both permanent structures and those under construction. Generally, the majority of the Company's residential mortgage loans originate with a loan-to-value of

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Loans Receivable (Continued)**

eighty percent or less, or those with primary mortgage insurance at eighty-one percent or greater (up to ninety-seven percent). However, the Company offers a specialized Physicians Loan Program which offers adjustable-rate mortgages with loan-to-values up to one hundred percent and no primary mortgage insurance.

In underwriting one-to-four family residential mortgage loans, the Company evaluates the borrower's ability to make monthly payments, the borrower's credit history and the value of the property securing the loan. The ability and willingness to repay is determined by the borrower's employment history, current financial conditions and credit background. Properties securing residential real estate loans made by the Company and held in portfolio are appraised by independent appraisers. The Company requires mortgage loan borrowers to obtain title insurance and fire and property insurance, including flood insurance, if applicable.

Residential mortgage loans generally present a lower level of risk than consumer or commercial loans because they are first lien secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position, especially to another lender, for the loan collateral.

Consumer Lending (including Home Equity)

The Company offers a variety of secured and unsecured consumer loans for personal, family or household purposes, including personal term loans, personal credit lines, automobile loans, home equity term loans, home equity lines of credit and loans secured by funds on deposit with the Company. Consumer loans vary according to the borrower's needs, the loan term and whether the loan will be collateralized.

Generally, home equity term loans are secured by the borrower's primary residence with a maximum loan-to-value of less than ninety percent and a maximum term of fifteen years. Generally, home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of eighty-five percent with a term of ten years and an amortization period of fifteen years.

In underwriting consumer loans, a thorough analysis is performed which takes into consideration criteria such as understanding the purpose of the loan, the borrower's ability to repay the loan as agreed, the borrower's creditworthiness, the borrower's credit background, employment history and the value and condition of the collateral.

Home equity term loans and home equity lines of credit generally present a lower level of risk than consumer loans because they are secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position, especially to another lender, for the loan collateral. Other types of consumer loans may entail greater credit risk than loans secured by residential real estate, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

In addition, consumer loan collections are dependent on the borrower's continuing financial stability and therefore, are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Non-performing Assets

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due or when management has serious doubts about further collectability of

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Non-performing Assets (Continued)**

principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income on a cash basis, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and 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 all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses – Loans

The allowance for credit losses ("ACL") is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged against the ACL when they are deemed uncollectible, and subsequent recoveries, if any, are credited to the allowance for credit losses. Changes to the allowance for credit losses are recorded through the provision for credit losses.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers the Company's historical loss experience, current conditions, and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain homogeneous loans that share similar risk characteristics and evaluation of loans that do not share similar risk characteristics with other loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company's loan pools include commercial, industrial and other loans, commercial mortgage, commercial construction, residential mortgage, and consumer. Loans that do not share similar risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. The Company evaluates all loans that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful and non-performing loans when repayment is expected to be provided substantially through the operation or sale of the collateral, and 3) when it is determined by the Company that the loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral method when the loan is collateral-dependent. The Company's individual loan evaluations consist primarily of the fair value of collateral method because a majority of the Company's loans are collateral-dependent.

Collateral values are discounted to consider disposition costs where appropriate. A specific reserve is established or a charge-off taken if the fair value of the loan is less than the loan balance.

For all loan pools with the exception of credit cards included in the consumer loan pool, the allowance for credit losses on collectively assessed loans is measured over the expected life of the loan using a vintage loss rate

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Allowance for Credit Losses – Loans (Continued)**

approach, which will then be supplemented with qualitative factors. The vintage loss rate approach creates pools of loans (made up of individual loans) based on the loan segmentation. The loan pools are aggregated by origination year. Charge-offs, net of recoveries, are allocated by the year of charge-off to each loan pool. An average life is prescribed to a pool of loans that were originated in a particular year. The actual charge-offs as a percentage of total loans are calculated for each historical year, and projected for future years for each year within the average life time horizon. The sum of the actual charge-offs and projected charge-offs are divided by the average amortized origination amount for each respective year. Those charge-off percentages are added together to obtain an aggregated vintage loss percentage which is then multiplied by the outstanding loan balances to obtain a reserve requirement. The Company has elected to use the Probability of Default approach for its credit card loan pool due to the nature and volume of these loans.

The Company runs the Current Expected Credit Loss (“CECL”) allowance model on a monthly basis and qualitatively adjusts model results quarterly for risk factors that are not considered within the model but which are relevant in assessing the expected credit losses within the loan pools. Management generally considers the following factors:

- Lending policies and procedures, including underwriting standards and historically based loss/collection;
- Volume of past-due loans, including non-accrual and classified loans;
- National and economic conditions that may have an impact on credit quality;
- Nature and volume of the loan portfolio; and
- Existence and effect of loan pool concentrations and changes in the levels of such concentrations.

Allowance for Loan Losses – Prior to Adopting ASU 2016-13

Prior to the adoption of ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” the Company calculated its allowance for loan losses (“ALL” or the “allowance”) using an incurred loan loss methodology. The following policy related to the ALL in the prior period.

The ALL represents management’s estimate for losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The ALL is increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the ALL is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The ALL is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The Company performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, since it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for loan losses consists of specific and general components and at times, it may include an unallocated component. The specific component relates to impaired loans, which consist of commercial, commercial mortgage, commercial construction, residential mortgage loans, and consumer loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate these loans by

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Allowance for Loan Losses – Prior to Adopting ASU 2016-13 (Continued)**

major risk classifications. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value; or, as a practical matter in the case of a collateral-dependent loan, the difference between the fair value of the collateral and the recorded amount of the loans. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreements. Factors considered by management in determining impairment include payment status, collateral value, financial health of the borrower, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's obtainable market price or the fair value of the collateral if the loan is collateral-dependent.

An ALL is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify the credit to more affordable terms before their loan reaches non-accrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. TDR loans are individually evaluated for impairment and provided for in the allowance for loan losses and are, therefore, excluded from pooled portfolio allocations. Management continually evaluates loans that are considered TDRs under the modified loan terms, including payment history and the borrower's ability to continue to repay the loan based on continued evaluations of their results of operation and cash flow from operations.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision for credit losses and is included within other liabilities on the Consolidated Balance Sheets.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Instruments and Hedging Activities (Continued)

the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Bank-Owned Life Insurance

The Company invests in bank-owned life insurance ("BOLI") on a chosen group of employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in non-interest income on the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, the Company would receive an additional death benefit, which would be recorded as non-interest income.

Endorsement Split-Dollar Life Insurance Arrangements

The Company recognizes a liability and related compensation cost for endorsed split-dollar life insurance arrangement that provides a benefit to specific retired and former employees. The amount recognized as a liability represents the present value of the post retirement cost for the endorsement split-dollar life insurance policies. The Company's accrued liability for this benefit agreement amounted to \$563,000 and \$501,000 as of December 31, 2023 and 2022, respectively. The related expense for this benefit agreement amounted to \$62,000 and \$60,000 for the years ended December 31, 2023 and 2022, respectively.

Premises and Equipment

Land is carried at cost. Premises, leasehold improvements and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets' estimated useful lives. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement or the original lease term. The estimated useful lives for calculating depreciation are as follows:

	<u>Years</u>
Building	40
Leasehold improvements	8–20
Land improvements	15
Furniture, fixtures and equipment and automobiles	3–12
Computer equipment	3–5

Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company accounts for its leases in accordance with ASC Topic 842, “Leases”, which primarily affects the accounting treatment for operating lease agreements in which the Bank is a lessee.

The Company elected to separate lease and non-lease components, but elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheets.

The Bank’s lease agreements often include one or more options to renew at the Bank’s discretion. If at lease inception, the Bank considers the exercising of a renewal option to be reasonably certain, the Bank will include the extended term in the calculation of the right-of-use (“ROU”) asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank utilized its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return the specific asset.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising costs of \$224,000 and \$184,000 are included in other non-interest expense for the years ended December 31, 2023 and 2022, respectively.

Rental Income

The Bank leases space to tenants at its principal office and its branch location. Rental income is recorded when earned as a component of non-interest income in the Consolidated Statements of Income. These leases are operating leases, as disclosed in Note 13 – Lease Commitments and Rental Activity.

Income Taxes

Income taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company recognizes interest and penalties on income taxes as a component of income tax expense.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost. Shares are released from treasury using the average cost method.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share 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 common shares that may be issued by the Company include the mandatory redeemable convertible debentures which are determined using the “if converted” method and outstanding stock options which are determined using the treasury stock method. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on investment securities available-for-sale and the net change in derivative fair value, are reported as a separate component of the stockholders’ equity section of the Consolidated Balance Sheets. Such items, along with net income, are the components of comprehensive income as presented in the Consolidated Statements of Comprehensive Income.

Stock-Based Compensation

The Company recognizes compensation cost relating to share-based payment transactions in the consolidated financial statements. The cost is measured based on the grant date fair value of the equity or liability instruments issued.

The Company calculates and recognizes compensation cost for all stock awards over the service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company uses a Black-Scholes model to estimate the fair value of stock options.

Fair Value of Financial Instruments

Fair value of financial instruments is estimated using relevant market information and other assumptions, as more fully disclosed in Note 22 – Fair Value of Financial Instruments. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications

Certain amounts previously reported have been reclassified, when necessary, to conform with presentations used in the 2023 consolidated financial statements. Such reclassifications had no effect on the Company’s net income or stockholders’ equity.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncements Adopted in 2023

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC 326” or “CECL”) and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses on financial assets measured at amortized cost, including loans, off-balance sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not the Company will be required to sell. This guidance became effective on January 1, 2023 for the Company. The results reported for the periods after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and unfunded commitments. On January 1, 2023, the Company recorded a cumulative effect increase to retained earnings of \$862,000, net of tax, of which \$1,068,000 related to loans and \$264,000 related to unfunded commitments. The Company also reversed a valuation allowance of \$58,000, net of tax, for a performing commercial loan.

The Company adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023 using the prospective transition approach, though no such charges had been recorded on the investment securities held by the Company as of the date of adoption.

The Company continued with the same pooling utilized under the legacy incurred loss model based on risk. The impact of the change from the incurred loss model to the current expected credit loss model is detailed below.

<i>(In Thousands)</i>	January 1, 2023		
	Pre-Adoption	Adoption Impact	As Reported
Assets			
Allowance for credit losses on debt securities available-for-sale			
U.S. treasuries	\$ -	\$ -	\$ -
Mortgage-backed securities in government-sponsored entities	-	-	-
Trust-preferred obligations	-	-	-
Corporate notes in financial institutions	-	-	-
Other	-	-	-
Allowance for credit losses on loans			
Commercial, industrial and other loans	1,050	497	1,547
Commercial mortgage	6,783	(1,975)	4,808
Commercial construction	769	29	798
Residential mortgage	195	4	199
Consumer	114	93	207
Liabilities			
Allowance for unfunded commitments	163	335	498
	<u>\$ 9,074</u>	<u>\$ 1,017</u>	<u>\$ 8,057</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – RESTRICTIONS ON CASH AND DUE FROM BANK BALANCES

The Bank is required to maintain reserve balances with the Federal Reserve Bank. The required reserve balances at December 31, 2023 and 2022 were \$0 and \$0, respectively. In response to the pandemic, the Federal Reserve Bank reduced the reserve requirement to zero effective March 26, 2020.

NOTE 4 – EQUITY SECURITIES

The Company had \$0 and \$774,000 in equity securities recorded at fair value at December 31, 2023 and 2022.

The following table presents the net gains and losses on equity securities recognized in earnings at December 31, 2023 and 2022, and the portion of unrealized gains and losses for the period that relates to equity securities held at December 31, 2023 and 2022:

<i>(In Thousands)</i>	<u>2023</u>	<u>2022</u>
Net gains recognized on equity securities during the year	\$ 12	\$ 112
Less gains realized on sales of equity securities during the year	<u>462</u>	<u>18</u>
Unrealized net (losses) gains recognized on equity securities	<u>\$ (450)</u>	<u>\$ 94</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of debt securities as of December 31, 2023 and 2022 are summarized as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
AVAILABLE-FOR-SALE:				
U.S. treasuries	\$ 42,436	\$ -	\$ (1,275)	\$ 41,161
Mortgage-backed securities in government-sponsored entities	22,294	147	(1,187)	21,254
Trust-preferred obligations	799	-	(38)	761
Corporate notes in financial institutions	30,061	-	(818)	29,243
Other	250	-	(34)	216
	<u>\$ 95,840</u>	<u>\$ 147</u>	<u>\$ (3,352)</u>	<u>\$ 92,635</u>

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
AVAILABLE-FOR-SALE:				
U.S. treasuries	\$ 147,378	\$ -	\$ (3,547)	\$ 143,831
Mortgage-backed securities in government-sponsored entities	20,156	126	(1,431)	18,851
Trust-preferred obligations	798	-	(60)	738
Corporate notes in financial institutions	37,982	1	(1,174)	36,809
Other	250	-	(37)	213
	<u>\$ 206,564</u>	<u>\$ 127</u>	<u>\$ (6,249)</u>	<u>\$ 200,442</u>

Proceeds from the sale of an investment security available-for-sale totaled \$4,976,000 and \$0 for the years 2023 and 2022, respectively. The gross realized loss on the one sold investment security totaled \$24,000 in 2023. There were no sales of investment securities available-for-sale in 2022.

Investment securities with a carrying value of \$85,101,000 and \$92,422,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, provide collateral for the Federal Reserve Bank Term Funding Program, and for other purposes as required or permitted by law.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

The amortized cost and fair value of securities as of December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalty.

	<u>Available-for-Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
	<u>(In Thousands)</u>	
Due in one year or less	\$ 55,198	\$ 54,451
Due after one year through five years	21,231	20,053
Due after five years through ten years	3,517	3,294
Due after ten years	15,894	14,837
Total	<u>\$ 95,840</u>	<u>\$ 92,635</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

The following table shows gross unrealized losses and fair value on investment securities, for which an allowance for credit losses has not been established, aggregated by category and length of time that individual securities have been in continuous unrealized loss positions, at December 31, 2023 and 2022.

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
AVAILABLE-FOR-SALE:						
U.S. treasuries	\$ -	\$ -	\$ 41,161	\$ (1,275)	\$ 41,161	\$ (1,275)
Mortgage-backed securities in government-sponsored entities	-	-	12,092	(1,187)	12,092	(1,187)
Trust-preferred obligations	-	-	761	(38)	761	(38)
Corporate notes in financial institutions	1,216	(34)	27,027	(784)	28,243	(818)
Other	-	-	216	(34)	216	(34)
Total investment securities available-for-sale	<u>\$ 1,216</u>	<u>\$ (34)</u>	<u>\$ 81,257</u>	<u>\$ (3,318)</u>	<u>\$ 82,473</u>	<u>\$ (3,352)</u>
	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
AVAILABLE-FOR-SALE:						
U.S. treasuries	\$ 93,335	\$ (1,101)	\$ 50,496	\$ (2,446)	\$143,831	\$ (3,547)
Mortgage-backed securities in government-sponsored entities	6,272	(122)	7,387	(1,309)	13,659	(1,431)
Trust-preferred obligations	-	-	738	(60)	738	(60)
Corporate notes in financial institutions	28,486	(490)	5,321	(684)	33,807	(1,174)
Other	-	-	213	(37)	213	(37)
Total investment securities available-for-sale	<u>\$128,093</u>	<u>\$ (1,713)</u>	<u>\$ 64,155</u>	<u>\$ (4,536)</u>	<u>\$192,248</u>	<u>\$ (6,249)</u>

There were 54 securities in an unrealized loss position as of December 31, 2023. The Company does not have the intent to sell these investment securities, and it is not more likely than not that the Company will be required to sell these investment securities prior to recovery of their amortized cost basis. The Company has determined that credit losses are not expected to be incurred on these investment securities identified with unrealized losses as of December 31, 2023. The unrealized losses on these investment securities reflect non-credit related factors driven by changes in interest rates. The Company concluded that the decline in fair value of these investment securities was not indicative of a credit loss. No investment securities in the portfolio required an allowance for credit losses to be recorded during the year ended December 31, 2023, and no impairment was recorded during the year ended December 31, 2022.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2023 and 2022 is as follows:

	2023	2022
	(In Thousands)	
Commercial, industrial and other loans	\$ 86,865	\$ 81,375
Commercial mortgage	548,965	502,051
Commercial construction	51,184	43,494
Residential mortgage	40,940	24,385
Consumer	11,404	11,064
Total gross loans	739,358	662,369
Net deferred loan costs	230	228
Allowance for credit losses	(7,408)	(8,911)
Loans receivable, net	<u>\$ 732,180</u>	<u>\$ 653,686</u>

Age Analysis of Past-Due Loans Receivable by Class

The following table includes an aging analysis of past-due loans receivable by portfolio segment as of December 31, 2023 and 2022.

	2023					
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans
Commercial	\$ -	\$ -	\$ 309	\$ 309	\$ 86,556	\$ 86,865
Commercial mortgage	-	371	2,578	2,949	546,016	548,965
Commercial construction	-	-	-	-	51,184	51,184
Residential mortgage	48	-	-	48	40,892	40,940
Consumer	-	-	-	-	11,404	11,404
Total	<u>\$ 48</u>	<u>\$ 371</u>	<u>\$ 2,887</u>	<u>\$ 3,306</u>	<u>\$ 736,052</u>	<u>\$ 739,358</u>
	2022					
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans
Commercial	\$ -	\$ -	\$ 309	\$ 309	\$ 81,066	\$ 81,375
Commercial mortgage	106	-	-	106	501,945	502,051
Commercial construction	-	-	-	-	43,494	43,494
Residential mortgage	-	-	-	-	24,385	24,385
Consumer	7	-	5	12	11,052	11,064
Total	<u>\$ 113</u>	<u>\$ -</u>	<u>\$ 314</u>	<u>\$ 427</u>	<u>\$ 661,942</u>	<u>\$ 662,369</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

The following table provides the amortized cost on loans on non-accrual status and loans past due over 90 days and still accruing interest as of December 31, 2023, under the current expected credit loss model.

<i>(In Thousands)</i>	December 31, 2023				
	Non-accrual with no ACL	Non- accrual with ACL	Total Non- accrual	Loans Past Due Over 90 Days Still Accruing	Total Non- performing
Commercial, industrial and other loans	\$ 309	\$ -	\$ 309	\$ -	\$ 309
Commercial mortgage	2,855	-	2,855	-	2,855
Commercial construction	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
Total	<u>\$ 3,164</u>	<u>\$ -</u>	<u>\$ 3,164</u>	<u>\$ -</u>	<u>\$ 3,164</u>

The following table provides the amortized cost on loans on non-accrual status and loans past due over 90 days and still accruing interest as of December 31, 2022, under the incurred loss model.

	December 31, 2022	
	Total Non-accrual	Loans Past Due Over 90 Days and Still Accruing
Commercial, industrial and other loans	\$ 309	\$ -
Commercial mortgage	-	-
Commercial construction	-	-
Residential mortgage	-	-
Consumer	-	-
Total	<u>\$ 309</u>	<u>\$ -</u>

Credit Quality Information

The following table represents commercial, commercial mortgage and commercial construction credit exposures by internally assigned grades as of December 31, 2023 and 2022 for the commercial loan portfolio. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows: "Pass" loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. "Special Mention" loans have a potential weakness or risk exists, which could cause a more serious problem if not corrected. "Substandard" loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. "Loss" loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information (Continued)

The following table presents the recorded investment in non-homogenous loans by credit quality indicators as of December 31, 2023, under the current expected credit loss model.

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	(Dollars in Thousands)								
Commercial, industrial and other loans									
Pass	\$ 10,043	\$ 21,480	\$ 16,335	\$ 4,787	\$ 1,358	\$ 13,409	\$ 18,936	\$ -	\$ 86,348
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	208	-	-	-	-	309	-	-	517
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ 10,251	\$ 21,480	\$ 16,335	\$ 4,787	\$ 1,358	\$ 13,718	\$ 18,936	\$ -	\$ 86,865
Current period charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage									
Pass	\$ 77,508	\$ 123,489	\$ 113,277	\$ 77,302	\$ 60,805	\$ 88,368	\$ 4,715	\$ -	\$ 545,464
Special Mention	-	-	455	-	-	-	-	-	455
Substandard	-	2,571	-	-	-	475	-	-	3,046
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ 77,508	\$ 126,060	\$ 113,732	\$ 77,302	\$ 60,805	\$ 88,843	\$ 4,715	\$ -	\$ 548,965
Current period charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial construction									
Pass	\$ 28,720	\$ 13,158	\$ 2,690	\$ 2,419	\$ 4,197	\$ -	\$ -	\$ -	\$ 51,184
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ 28,720	\$ 13,158	\$ 2,690	\$ 2,419	\$ 4,197	\$ -	\$ -	\$ -	\$ 51,184
Current period charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals by Risk Rating									
Pass	\$ 116,271	\$ 158,127	\$ 132,302	\$ 84,508	\$ 66,360	\$ 101,777	\$ 23,651	\$ -	\$ 682,996
Special Mention	-	-	455	-	-	-	-	-	455
Substandard	208	2,571	-	-	-	784	-	-	3,563
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ 116,479	\$ 160,698	\$ 132,757	\$ 84,508	\$ 66,360	\$ 102,561	\$ 23,651	\$ -	\$ 687,014

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information (Continued)

The Company monitors the credit risk profile by payment activity for residential and consumer loan segments. Loans past due 120 days or more and loans on non-accrual status are considered non-performing. Non-performing loans are reviewed monthly. The following table presents the amortized cost of residential and consumer loan segments based on payment activity as of December 31, 2023, under the current expected credit loss model.

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	(Dollars in Thousands)								
Residential mortgage									
Performing	\$ 16,564	\$ 12,854	\$ 2,148	\$ 3,503	\$ 1,533	\$ 4,338	\$ -	\$ -	\$ 40,940
Non-performing	-	-	-	-	-	-	-	-	-
Total	\$ 16,564	\$ 12,854	\$ 2,148	\$ 3,503	\$ 1,533	\$ 4,338	\$ -	\$ -	\$ 40,940
Current period charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer									
Performing	\$ 2,152	\$ 2,017	\$ 1,137	\$ 407	\$ 524	\$ 913	\$ 4,254	\$ -	\$ 11,404
Non-performing	-	-	-	-	-	-	-	-	-
Total	\$ 2,152	\$ 2,017	\$ 1,137	\$ 407	\$ 524	\$ 913	\$ 4,254	\$ -	\$ 11,404
Current period charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ 5
Totals by Payment Performance									
Performing	\$ 18,716	\$ 14,871	\$ 3,285	\$ 3,910	\$ 2,057	\$ 5,251	\$ 4,254	\$ -	\$ 52,344
Non-performing	-	-	-	-	-	-	-	-	-
Total	\$ 18,716	\$ 14,871	\$ 3,285	\$ 3,910	\$ 2,057	\$ 5,251	\$ 4,254	\$ -	\$ 52,344

During the year ended December 31, 2019, the Company initiated formal foreclosure proceedings on a \$309,000 commercial loan. As of December 31, 2023, this property has not yet been transferred into foreclosed assets due to governmental delays experienced during the COVID-19 pandemic and an out-of-state foreclosure process. During the year ended December 31, 2023, the Company initiated formal foreclosure proceedings on a \$2,855,000 commercial mortgage loan relationship consisting of ten loans, and as of December 31, 2023, the properties have not yet been transferred into foreclosed assets.

A loan is considered to be collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all segments of loans deemed collateral-dependent, the Company elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. The collateral supporting collateral-dependent loans consist of real estate. At December 31, 2023, collateral-dependent loans totaled \$309,000 in the commercial loan segment and \$2,855,000 in the commercial mortgage loan segment, all of which were dependent on real estate.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information (Continued)

The following table represents commercial, commercial mortgage and commercial construction credit exposures by internally assigned grades as of December 31, 2022 for the commercial loan portfolio, under the incurred loss model.

<i>(In Thousands)</i>	2022			
	Commercial	Commercial Mortgage	Commercial Construction	Total
Pass	\$ 80,908	\$ 498,321	\$ 43,494	\$ 622,723
Special Mention	-	510	-	510
Substandard	467	3,220	-	3,687
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	<u>\$ 81,375</u>	<u>\$ 502,051</u>	<u>\$ 43,494</u>	<u>\$ 626,920</u>

The following table presents performing and non-performing residential mortgage and consumer loans based on payment activity as of December 31, 2022, under the incurred loss model.

<i>(In Thousands)</i>	2022		
	Residential Mortgage	Consumer	Total
Performing	\$ 24,385	\$ 11,064	\$ 35,449
Non-performing	-	-	-
Total	<u>\$ 24,385</u>	<u>\$ 11,064</u>	<u>\$ 35,449</u>

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Company modifies loans to borrowers in financial distress by providing extensions of credit, interest rate reductions, or other forbearance modifications. In some cases, the Company may provide multiple types of concessions on one loan. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Modifications to Borrowers Experiencing Financial Difficulty (Continued)

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted.

	Loan Modifications Made to Borrowers Experiencing Financial Difficulty				Total	% of Total Class of Financing Receivable
	December 31, 2023					
(In Thousands)	Term Extension	More-Than-Insignificant Payment Delay	Interest Rate Reduction	Other		
Commercial mortgage	\$ 2,855	\$ -	\$ -	\$ -	\$ 2,855	0.5%
Total	\$ 2,855	\$ -	\$ -	\$ -	\$ 2,855	0.5%

As of December 31, 2023, the Company had no commitments to lend additional amounts to the borrowers included in the previous table.

Upon the Company's determination that a modified loan (or a portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. During the year, the commercial mortgage relationship consisting of ten loans totaling \$2,855,000 subsequently defaulted after modification in the twelve months before the default. However, these loans are collateral-dependent, and no portion of the modified loans were deemed uncollectible or subsequently written off in 2023.

For the commercial mortgage relationship, the financial effect of the term extension was to provide the borrowers with six-month principal deferral and maturity date extension through a forbearance agreement.

The Company closely monitors the performance of the loans modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2023, this commercial mortgage relationship totaling \$2,855,000 was greater than 60 days past due.

Troubled Debt Restructurings

During the year ended December 31, 2023, the Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02") on a modified retrospective basis. ASU 2022-02 eliminates the troubled debt restructuring ("TDR") accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, "Receivables – Nonrefundable Fees and Other Costs," and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of ASU 2016-13, the TDRs were evaluated and included in the loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the allowance for credit losses was measured using the collateral-dependent or discounted cash flow method.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Troubled Debt Restructurings (Continued)

The Company's loan portfolio also includes certain loans that have been modified in a TDR, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

The following table presents the most comparable required information for the prior period for impaired loans that were TDRs, with the recorded investment at December 31, 2022:

<i>(In Thousands)</i>	<u>December 31, 2022</u>
Non-accrual TDRs	\$ 309
Accruing TDRs	<u>3,375</u>
Total TDRs	<u>\$ 3,684</u>

As of December 31, 2022, the accruing TDR loans were performing according to the restructured terms; however, the non-accrual TDR loan was not performing according to the restructured terms.

During the year ended December 31, 2022, the Company had 11 loan modifications that constituted a TDR. These loan modifications during the year ended December 31, 2022 were as follows:

<i>(In Thousands, except number of contracts)</i>	<u>2022</u>		
<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>	
Commercial mortgage	10	\$ 3,027	\$ 3,027
Consumer	1	21	21

One commercial mortgage relationship consisting of 10 loans was modified twice in 2022. Both modifications in 2022 extended the maturity date of each loan for six months. For the consumer relationship, the modification extended the maturity date of the loan and refixed the interest rate.

The Company did not have any reserves allocated to TDRs within the allowance for loan losses at December 31, 2022. Additionally, the Company had no commitments to lend additional funds to borrowers whose loans have been modified in a TDR.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – ALLOWANCE FOR CREDIT LOSSES

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023, under the current expected credit loss model.

	<u>Commercial</u>	<u>Commercial Mortgage</u>	<u>Commercial Construction</u>	<u>Residential Mortgage</u>	<u>Consumer</u>	<u>Total</u>
<i>(In Thousands)</i>						
Beginning balance, December 31, 2022	\$ 1,050	\$ 6,783	\$ 769	\$ 195	\$ 114	\$ 8,911
Impact of adopting ASU 2016-13	497	(1,975)	29	4	93	(1,352)
Charge-offs	-	-	-	-	(5)	(5)
Recoveries	-	-	-	-	1	1
Provision (reduction)	31	(317)	28	163	(52)	(147)
Ending balance, December 31, 2023	<u>\$ 1,578</u>	<u>\$ 4,491</u>	<u>\$ 826</u>	<u>\$ 362</u>	<u>\$ 151</u>	<u>\$ 7,408</u>

The following table presents by portfolio segment, changes in the allowance for loan losses for the year ended December 31, 2022, under the incurred loss model.

	<u>Commercial</u>	<u>Commercial Mortgage</u>	<u>Commercial Construction</u>	<u>Residential Mortgage</u>	<u>Consumer</u>	<u>Total</u>
<i>(In Thousands)</i>						
Beginning balance, December 31, 2021	\$ 954	\$ 6,490	\$ 833	\$ 129	\$ 109	\$ 8,515
Charge-offs	(10)	-	-	-	-	(10)
Recoveries	-	-	-	17	1	18
Provision	106	293	(64)	49	4	388
Ending balance, December 31, 2022	<u>\$ 1,050</u>	<u>\$ 6,783</u>	<u>\$ 769</u>	<u>\$ 195</u>	<u>\$ 114</u>	<u>\$ 8,911</u>

The following table presents the activity in the allowance for credit losses on off-balance sheet credit exposures for the year ended December 31, 2023, under the current expected credit loss model.

	<u>December 31, 2023</u>
<i>(In Thousands)</i>	
Beginning balance, December 31, 2022	\$ 163
Impact of adopting ASU 2016-13	335
(Reduction) provision	(12)
Ending balance, December 31, 2023	<u>\$ 486</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table presents the information regarding the allowance for loan losses and associated loan data by portfolio segment under the incurred loss model as of December 31, 2022.

Allowance for Loan Losses and Loans Receivable as of December 31, 2022						
<i>(In Thousands)</i>	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Allowance for loan losses:						
Ending balance	\$ 1,050	\$ 6,783	\$ 769	\$ 195	\$ 114	\$ 8,911
Ending balance: individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance: collectively evaluated for impairment	\$ 1,050	\$ 6,783	\$ 769	\$ 195	\$ 114	\$ 8,911
Loans receivable:						
Ending balance	\$ 81,375	\$ 502,051	\$ 43,494	\$ 24,385	\$ 11,064	\$ 662,369
Ending balance: individually evaluated for impairment	\$ 467	\$ 3,591	\$ -	\$ -	\$ 20	\$ 4,078
Ending balance: collectively evaluated for impairment	\$ 80,908	\$ 498,460	\$ 43,494	\$ 24,385	\$ 11,044	\$ 658,291

The following table includes the recorded investment and unpaid principal balances for impaired loans as of December 31, 2022 with their associated allowance for loan losses amount, under the incurred loss model, if applicable.

2022					
<i>(In Thousands)</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial mortgage	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Consumer	-	-	-	-	-
With no related allowance recorded:					
Commercial	\$ 467	\$ 619	\$ -	\$ 507	\$ 10
Commercial mortgage	3,591	3,591	-	4,431	218
Residential mortgage	-	-	-	26	7
Consumer	20	20	-	20	1
Total:					
Commercial	\$ 467	\$ 619	\$ -	\$ 507	\$ 10
Commercial mortgage	3,591	3,591	-	4,431	218
Residential mortgage	-	-	-	26	7
Consumer	20	20	-	20	1

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – PREMISES AND EQUIPMENT

The components of premises and equipment at December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
	(In Thousands)	
Land	\$ 2,105	\$ 2,103
Building	9,089	9,038
Leasehold improvements	1,669	1,245
Land improvements	789	789
Furniture, fixtures and equipment and automobiles	2,022	1,486
Computer equipment	699	650
Fixed assets in process	-	258
	<u>16,373</u>	<u>15,569</u>
Accumulated depreciation	<u>(4,637)</u>	<u>(4,172)</u>
Total	<u>\$ 11,736</u>	<u>\$ 11,397</u>

Depreciation expense for the years ended December 31, 2023 and 2022 was \$542,000 and \$441,000, respectively.

NOTE 9 – DEPOSITS

The components of deposits at December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
	(In Thousands)	
Demand, non-interest bearing	\$ 92,727	\$ 118,992
Demand, interest-bearing	197,159	184,152
Savings	186,164	217,502
Time deposits less than \$250,000	168,937	120,035
Time deposits, \$250,000 or greater	<u>56,551</u>	<u>26,796</u>
Total	<u>\$ 701,538</u>	<u>\$ 667,477</u>

At December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

2024	\$ 210,580
2025	9,201
2026	1,558
2027	1,988
2028	<u>2,161</u>
Total	<u>\$ 225,488</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SHORT-TERM BORROWINGS

Short-term borrowings include advances with the FHLB with terms of less than twelve months, the Federal Discount Window, the Federal Reserve Bank Term Funding Program, a revolving line of credit with a local financial institution, and securities sold under agreements to repurchase. Short-term borrowings amounted to \$61,681,000 and \$101,767,000 at December 31, 2023 and 2022, respectively.

FHLB borrowings are secured by the master borrowing agreement between the Bank and the FHLB. The Bank has the ability to borrow overnight funds from the FHLB under an open repurchase agreement, and these overnight funds renew daily at a rate determined by the FHLB. The Bank had an outstanding balance of FHLB overnight borrowings of \$0 and \$54,100,000 as of December 31, 2023 and 2022, respectively.

The Bank also has the ability to borrow funds from the FHLB at a fixed rate secured by the master agreement. In 2020, the Bank secured a \$10.0 million fixed rate advance with a three-month maturity, and upon its maturity, the Bank secured an additional \$10.0 million three-month fixed rate advance. The Bank intends to continue securing a \$10 million three-month fixed rate advance until the maturity of the Bank's cash flow hedge on February 28, 2030. Please refer to Note 23 – Derivatives and Hedging Activities for further information about the Bank's cash flow hedge and Note 11 – Long-Term Borrowings for the Company's maximum borrowing capacity at the FHLB.

Information concerning the Bank's short-term FHLB advances are summarized as follows:

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
Ending balance	\$ 10,000	\$ 64,100
Average balance during the year	21,522	23,676
Weighted-average interest rate during the year	5.15%	3.07%
Maximum month-end balance during year	53,800	67,500
Weighted-average interest rate at end of year	5.62%	4.48%

The Bank also had borrowing capacity with the Federal Discount Window of \$1,858,000 and \$1,996,000 at December 31, 2023 and 2022, respectively. The Bank did not have an outstanding balance of the Federal Discount Window as of December 31, 2023 and 2022.

In March 2023, the Federal Reserve Bank established the Bank Term Funding Program (the "BTFP") as an additional source of liquidity against high-quality securities. The Bank has the ability to borrow funds from the BTFP for terms up to one year at a rate established by the Federal Reserve Bank. The Bank had an outstanding balance of BTFP borrowings of \$41,000,000 as of December 31, 2023. As of December 31, 2023, collateral pledged to the BTFP consisted of \$40,500,000 in U.S. treasuries and \$1,835,000 in mortgage-backed securities. The Federal Reserve Bank announced that the BTFP will cease making new loans on March 11, 2024.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SHORT-TERM BORROWINGS (CONTINUED)

Information concerning the Bank’s Federal Reserve Bank Term Funding Program is summarized as follows:

	Year Ended December 31, 2023
	(In Thousands)
Ending balance	\$ 41,000
Average balance during the year	19,510
Weighted-average interest rate during the year	4.73%
Maximum month-end balance during year	41,000
Weighted-average interest rate at end of year	4.38%

The Company has also secured a \$10.0 million revolving line of credit with a maturity date of September 14, 2023 with another financial institution. During 2023, the Company extended the maturity date to September 14, 2024. The interest rate on this line of credit equals the U.S. Prime Rate as published by The Wall Street Journal minus 100 basis points or 1%, floating daily. The Company is subject to certain affirmative and negative covenants as stated in the loan agreement, including maintaining capital ratios which meet or exceed regulatory capital requirements. At December 31, 2023, the Company was in compliance with these covenants. The outstanding balance on the line of credit was \$10.0 million and \$0 at December 31, 2023 and 2022, respectively.

Securities Sold Under Agreements to Repurchase (“Repurchase Agreements”)

The Bank enters into agreements with customers as part of cash management services where the Bank sells securities to the customer overnight with the agreement to repurchase them at par. Securities sold under agreements to repurchase generally mature within one day of the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements are under the Bank’s control and the fair value of the underlying securities are monitored on a daily basis.

Information concerning securities sold under agreements to repurchase is summarized as follows:

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
Ending balance	\$ 681	\$ 37,667
Average balance during the year	24,805	30,971
Weighted-average interest rate during the year	1.47%	0.35%
Maximum month-end balance during year	39,961	44,374
Weighted-average interest rate at end of year	1.00%	0.98%

The Bank enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Bank may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Bank to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability on the Consolidated Balance Sheets, while the securities underlying the repurchase

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SHORT-TERM BORROWINGS (CONTINUED)

agreements remain in the respective investment securities asset accounts. In other words, there is not offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Bank does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right to setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Bank be in a default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a correspondent bank in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities.

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreements as of December 31, 2023 and 2022.

<i>(In Thousands)</i>	<u>Gross Amounts of Recognized Liabilities</u>	<u>Gross Amounts Offset in the Consolidated Balance Sheets</u>	<u>Net Amounts of Liabilities Presented in the Consolidated Balance Sheets</u>	<u>Financial Instruments</u>	<u>Cash Collateral Pledge</u>	<u>Net Amount</u>
December 31, 2023						
Repurchase agreements	\$ 681	\$ -	\$ 681	\$ (681)	\$ -	\$ -
December 31, 2022						
Repurchase agreements	\$ 37,667	\$ -	\$ 37,667	\$ (37,667)	\$ -	\$ -

The following table provides additional detail regarding the collateral pledged to secure the repurchase agreements and the remaining contractual maturity of the short-term borrowed funds.

	Repurchase Agreements (Sweep)	
	Accounted for as Secured Borrowings	
	<u>At December 31, 2023</u>	<u>At December 31, 2022</u>
	Remaining Contractual Maturity of the Agreements	
	<u>Overnight and Continuous</u>	<u>Overnight and Continuous</u>
	<i>(In Thousands)</i>	
Repurchase agreements:		
U.S. treasuries	\$ -	\$ 40,215
Mortgage-backed securities in government-sponsored entities	2,695	11,303
Total collateral carrying value	<u>\$ 2,695</u>	<u>\$ 51,518</u>
Total short-term borrowed funds	<u>\$ 681</u>	<u>\$ 37,667</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – LONG-TERM BORROWINGS

Long-term borrowings are comprised of advances from the FHLB with terms of one year or greater.

The Bank is a member of the FHLB, which permits the Bank to obtain funding in the form of advances, subject to a maximum borrowing capacity of \$389,575,000. Membership in the FHLB requires that the Bank maintains as collateral a certain percentage of its assets in home mortgage assets and certain investment securities, and to purchase a certain amount of FHLB common stock. Both requirements follow formulas established by the FHLB and, at December 31, 2023, the Bank was in compliance with these requirements.

Long-term borrowings with the FHLB amounted to \$45.0 million and \$55.0 million at December 31, 2023 and 2022, respectively. The \$45.0 million outstanding at December 31, 2023 consists of fixed maturity advances with maturity dates ranging from March 26, 2024 to February 7, 2028. Interest rates on these advances range from 2.49% to 3.65%, with a weighted-average interest rate of 3.10%.

Scheduled FHLB repayments of principal at December 31, 2023 are as follows:

	<u>Balance</u>	<u>Weighted- Average Rate</u>
	(In Thousands)	
2024	\$ 20,000	2.58%
2025	15,000	3.65%
2028	<u>10,000</u>	3.33%
Total	<u>\$ 45,000</u>	3.10%

NOTE 12 – SUBORDINATED DEBT

On April 26, 2002, the Company issued a \$10,503,000 principal amount of 6.0 percent junior subordinated debentures due March 31, 2032 to American Capital Trust I (the “Trust”), a Delaware Business Trust. The Company owns all of the common equity of the Trust. The debentures are the sole asset of the Trust. The Trust issued \$10,200,000 of 6.0 percent cumulative convertible trust-preferred securities to investors. The trust-preferred securities are callable by the Company after March 31, 2007. The trust-preferred securities must be redeemed at the maturity of the debentures on March 31, 2032. Holders of the preferred securities may elect to convert the preferred securities into common stock of the Company at any time, at a conversion ratio of one share of common stock for each preferred security. Preferred securities are convertible into 317,030 shares of common stock at December 31, 2023. The Company’s obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust’s obligations under the preferred securities.

The debentures currently qualify as Tier 1 capital of the Company, subject to a 25 percent of capital limitation under risk-based capital guidelines developed by the Federal Reserve Board. The portion that exceeds the 25 percent of capital limitation qualifies as Tier 2 capital of the Company. For regulatory reporting purposes, the Federal Reserve Board has indicated that the preferred securities will continue to qualify as Tier 1 capital subject to these limitations, until further notice.

Junior subordinated debentures amounted to \$2,760,000 and \$2,861,000 as of December 31, 2023 and 2022, respectively. The Company retired 2,500 shares of trust-preferred securities and also converted 6,936 shares of trust-preferred securities to common shares during 2023.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY

The Bank leases the premises for its principal office under a ten year operating lease agreement with a related party beginning March 1, 2023 and ending February 29, 2032. The Bank is responsible for its direct proportionate share of real estate taxes, insurance and common area maintenance. The lessor is an entity owned by the Chairman of the Board, President and Chief Executive Officer of the Company.

The Bank also leases the premises for a loan production office under a seven year operating lease agreement through January 31, 2023. During 2023, the Bank extended its lease through April 30, 2028. The Bank is responsible for its direct or proportionate share of real estate taxes, insurance, utilities, and maintenance and repairs.

The Bank leased the premises for its disaster recovery site under an operating lease through February 28, 2023. The Bank also leased a postage meter under a five year non-cancelable finance lease through March 31, 2023.

The following table represents the Company's ROU assets and lease liabilities as of December 31, 2023 and 2022.

<i>(In Thousands)</i>	2023		2023
Lease Right-of-Use Assets		Lease Liabilities	
Operating lease right-of-use assets	\$ 2,418	Operating lease liabilities	\$ 2,456
Finance lease right-of-use assets	-	Finance lease liabilities	-
Total lease right-of use assets	\$ 2,418	Total lease liabilities	\$ 2,456
 <i>(In Thousands)</i>	2022		2022
Lease Right-of-Use Assets		Lease Liabilities	
Operating lease right-of-use assets	\$ 4	Operating lease liabilities	\$ 4
Finance lease right-of-use assets	-	Finance lease liabilities	-
Total lease right-of use assets	\$ 4	Total lease liabilities	\$ 4

The calculated amount of the ROU assets and lease liabilities in the table above is impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The incremental borrowing rate for the remaining lease terms were used to determine the discount rate.

At December 31, 2023, the Bank's weighted-average remaining lease term was 8.8 years and the weighted-average discount rate was 4.67% for its operating leases.

The following table represents lease costs and other lease information for the year ended December 31, 2023 and 2022.

<i>(In Thousands)</i>	2023	2022
Operating lease cost	\$ 300	\$ 54
Finance lease cost		
Amortization of right-of-use asset	-	3
Sublease income	(253)	(168)
Net lease expense (income)	\$ 47	\$ (111)

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY (CONTINUED)

Rental expense was \$300,000 and \$54,000 for the years ended December 31, 2023 and 2022, including \$255,000 and \$0 to the related party, respectively.

Future minimum lease payments for its operating leases with an initial term of one year or more as of December 31, 2023 were as follows:

<i>(In Thousands)</i>	<u>Operating Lease</u>
2024	\$ 322
2025	331
2026	339
2027	347
2028	324
Thereafter	1,365
Total future minimum lease payments	<u>3,028</u>
Amounts representing interest	<u>572</u>
Present value of net future minimum lease payments	<u>\$ 2,456</u>

The Company is the landlord for the tenant renting space located at its branch under a five year operating lease agreement through February 28, 2023, at which time the lease was extended to February 28, 2026. The tenant is responsible for its direct and proportionate share of utilities. The tenant may terminate the lease before the end of the term provided certain conditions and requirements as stated in the lease are met.

The Bank is the landlord for a subtenant renting space located at its principal office under a month-to-month operating lease starting February 21, 2023. Monthly payments cover base rent of subleased premises and furniture usage.

Rental income was \$253,000 and \$168,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 14 – STOCKHOLDERS' EQUITY

On March 16, 2021, the Company approved a new stock repurchase program, which authorizes the repurchase of 275,000 shares of its outstanding common stock. As of December 31, 2023, 197,987 shares were available for repurchase under the program.

During 2023, the Company repurchased 16,175 shares into treasury at a weighted-average cost of \$16.60 per share. During 2022, the Company repurchased 22,767 shares into treasury at a weighted-average cost of \$16.02 per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – NET INCOME PER COMMON SHARE

The following table sets forth the computations of basic and diluted earnings per share for the years ended December 31, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
	(In Thousands, Except Per Share Data)	
Numerator, basic earnings per share, net income	\$ 9,312	\$ 10,115
Interest paid on junior subordinated debentures, net of tax effect	130	167
Numerator, diluted earnings per share, net income	<u>\$ 9,442</u>	<u>\$ 10,282</u>
Denominators:		
Average basic shares outstanding	6,283	6,188
Average dilutive mandatory redeemable debentures effect	317	327
Average dilutive stock option effect	44	38
Average diluted shares outstanding	<u>6,644</u>	<u>6,553</u>
Net income per common share:		
Basic	\$ 1.48	\$ 1.63
Diluted	\$ 1.42	\$ 1.57

Options to purchase 180,000 shares of common stock outstanding at December 31, 2023 with exercise prices of \$11.70 – \$12.99 per share were included in the computation of dilutive earnings per share. There were options to purchase 182,000 shares of common stock outstanding at December 31, 2022 with exercise prices of \$11.70 – \$12.99 per share that were included in the computation of dilutive earnings per share.

At December 31, 2023 and 2022, 41,465 shares and 39,363 shares of common stock in the Non-Qualified Deferred Compensation Plan for Senior Executives (“SERP”) were not included in the computation of basic and dilutive earnings per share because management has determined that it is probable that the settlement of distributions from the SERP will occur in cash.

NOTE 16 – EMPLOYEE BENEFITS

401(k) Plan

The Company has a 401(k) plan covering substantially all employees. The Company matches 50 percent of an employee’s contribution on the first 6 percent of gross pay, up to a maximum of 3 percent. Additionally, discretionary contributions may be determined annually by the Board of Directors. The Company’s contributions are expensed as costs are incurred. Total expense amounted to \$146,000 and \$139,000 for the years ended December 31, 2023 and 2022, respectively.

Stock Option Plans

The Company has a Non-Qualified Stock Option Plan (the “Plan”) that includes officers and independent directors. The shares of stock that may be issued under the Plan will not exceed 6.5% of the Company’s common stock outstanding. Options granted under the Plan will have an option price at least equal to the fair market value common stock on the date of the grant. At December 31, 2023, 5,000 options were outstanding under the Plan, and stock options will no longer be granted under this Plan.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 – EMPLOYEE BENEFITS (CONTINUED)

Stock Option Plans (Continued)

On October 16, 2018, the Board of Directors approved the 2018 Stock Option Plan (“2018 Plan”). The 2018 Plan includes employees and directors of the Company and allows stock options to be granted as an incentive stock option (an “ISO”) or as a non-qualified option. Options granted under the 2018 Plan will have an option price at least equal to the fair market value of the common stock on the date of the grant. The maximum number of shares of stock that may be issued under the 2018 Plan will not exceed 375,000 shares, all of which may be granted as ISOs. At December 31, 2023, 175,000 options were outstanding under the 2018 Plan, all of which were ISOs. Options available for grant at December 31, 2023 were 195,000 under the 2018 Plan.

The options granted under both plans expire not more than ten years after the date of the grant. Exercise and vesting dates and terms may vary and are specified at the date of the grant. Normal vesting of the options occurs between five years and ten years.

Stock option transactions under the Plan were as follows:

	Year Ended December 31, 2023	
	Options	Weighted- Average Exercise Price
Outstanding at the beginning of the year	182,000	\$ 12.42
Granted	-	-
Exercised	2,000	11.80
Forfeited	-	-
Outstanding at the end of the year	<u>180,000</u>	\$ 12.43
Exercisable at December 31	<u>121,000</u>	\$ 12.17

At December 31, 2023, the aggregate intrinsic value of total options outstanding was \$976,000. At December 31, 2023, the aggregate intrinsic value of options exercisable was \$687,000. The weighted-average remaining contractual life of total options outstanding was 6.0 years.

No options were granted for the years ended December 31, 2023 and 2022.

For the years December 31, 2023 and 2022, stock option compensation expense of \$36,000 and \$72,000, respectively, was recognized in connection with the stock option plans. A tax benefit of \$8,000 and \$15,000 was recognized relative to stock options during the years ended December 31, 2023 and 2022, respectively. At December 31, 2023, future compensation expense related to non-vested stock option grants aggregated to \$23,000 and will be recognized over the next four years.

ESOP

The Company maintains an Employee Stock Ownership Plan (“ESOP”) covering employees who meet certain eligibility requirements. The plan is designed to provide officers and eligible employees with proprietary interest in the Company as an incentive to contribute to the Company’s success and to help ensure the attainment of the Company's goals. The plan is administered by a committee of the Board of Directors. At present, the securities held by the plan consist solely of shares of common stock of the Company, which were purchased on the open market. Contributions to the plan and allocations of shares under the plan are discretionary on the part of the Board of

NOTE 16 – EMPLOYEE BENEFITS (CONTINUED)**ESOP (Continued)**

Directors. Distributions from the plan can be in the form of cash, stock or cash and stock. If an all cash distribution is elected, the fair value of the shares of stock is calculated as of the end of the previous plan year and the shares are returned to the plan as unallocated. The Company has engaged the services of an independent trustee to hold the assets of the plan and Trust.

During 2023, the Company contributed 1,500 shares of stock to the plan. The Company allocated 2,500 shares of stock to eligible employees, leaving 0 shares of stock committed to be released at December 31, 2023. The Company did not recognize any compensation expense at the end of the plan year. The fair value of the unallocated ESOP shares at December 31, 2023 was \$0.

At December 31, 2023, the ESOP trust owned a total of 44,244 shares of Company common stock. At that date, 44,244 shares had been allocated to employees.

During 2022, the plan purchased 400 shares of stock. The Company allocated 2,500 shares of stock to eligible employees, leaving 129 shares of stock being held as unallocated at year-end. The Company did not recognize any compensation expense at the end of the plan year. The fair value of the unallocated ESOP shares at December 31, 2022 was \$2,000.

At December 31, 2022, the ESOP trust owned a total of 42,744 shares of Company common stock. At that date, 42,615 shares had been allocated to employees.

Deferred Compensation Plan

The Bank maintains a Non-Qualified Deferred Compensation Plan for Senior Employees (the “SERP”), designated by the Board of Directors. The SERP is a funded plan maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees within the meaning of the Employee Retirement Income Security Act of 1974, as amended. Each year the Bank may, but is not required to, make discretionary contributions to the SERP on behalf of participants. The rate of return credited to participants’ accounts each year, the vesting provisions, and other provisions are set forth in the SERP document. For as long as the participant participates in the SERP as an employee of the Bank or while receiving benefits under the SERP, the participant will be bound by the non-disclosure/trade secret and non-solicitation provisions of the SERP. At December 31, 2023 and 2022, the liability for the SERP was \$813,000 and \$748,000, respectively. During the year ended December 31, 2023 and 2022, the amount charged to SERP expense was \$65,000 and \$122,000, respectively. During 2023, the SERP purchased 2,102 shares of the Company’s common stock for allocation to the participants and held 41,465 shares for allocation to participants on that date. During 2022, the SERP purchased 1,675 shares of the Company’s common stock for allocation to the participants, sold 866 shares of the Company’s common stock to fund participant distributions, and held 39,363 shares for allocation to participants on that date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – INCOME TAXES

The provision for federal income taxes for the years ended December 31, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
	(In Thousands)	
Current	\$ 2,657	\$ 2,537
Deferred	(312)	41
Total income tax expense	<u>\$ 2,345</u>	<u>\$ 2,578</u>

Reconciliation of the statutory income tax expense to the income tax expense included in the Consolidated Statements of Income is as follows:

	<u>2023</u>		<u>2022</u>	
<i>(Dollars in Thousands)</i>	<u>Amount</u>	<u>% of Pretax Income</u>	<u>Amount</u>	<u>% of Pretax Income</u>
Provision at statutory rate	\$ 2,448	21.0%	\$ 2,665	21.0%
Effect of tax-exempt income	(5)	(0.0)	(7)	(0.1)
Bank-owned life insurance income	(115)	(1.0)	(103)	(0.8)
Other, net	17	0.1	23	0.2
Income tax provision and effective rate	<u>\$ 2,345</u>	<u>20.1%</u>	<u>\$ 2,578</u>	<u>20.3%</u>

At December 31, 2023 and 2022, the significant components of deferred tax assets and liabilities are as follows:

	<u>2023</u>	<u>2022</u>
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 1,556	\$ 1,871
Deferred compensation	162	148
Stock option expense	5	5
Impairment losses on investment securities and equities	-	11
Net unrealized loss on investment securities	673	1,285
Other	254	162
Total gross deferred tax assets	<u>2,650</u>	<u>3,482</u>
Deferred tax liabilities:		
Net unrealized gains on equity securities	-	(95)
Premises and equipment	(235)	(76)
Net unrealized gain on derivatives	(306)	(361)
Loan origination costs	(266)	(238)
Total gross deferred tax liabilities	<u>(807)</u>	<u>(770)</u>
Net deferred tax assets	<u>\$ 1,843</u>	<u>\$ 2,712</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – INCOME TAXES (CONTINUED)

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits at December 31, 2023 and 2022. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. The Company's federal tax returns for taxable years through 2020 have been closed for purposes of examination by the Internal Revenue Service. The Company's state tax returns for taxable years through 2019 have been closed for purposes of examination by the Pennsylvania Department of Revenue. The Company's state tax returns for taxable years through 2019 are closed for purposes of examination by the New Jersey Department of Revenue.

NOTE 18 – TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates, as those prevailing at the time for comparable transactions with others.

A summary of the activity on related party loans, comprised of directors and executive officers and their related companies, consists of the following:

	<u>2023</u>	<u>2022</u>
	(In Thousands)	
Balance at January 1	\$ 1,807	\$ 3,688
Additions	1,515	-
Deductions	<u>(1,286)</u>	<u>(1,881)</u>
Balance at December 31	<u>\$ 2,036</u>	<u>\$ 1,807</u>

The above loans represent funds drawn and outstanding at the date of the consolidated financial statements. Commitments by the Bank to related parties on lines of credit for 2023 and 2022 presented an off-balance sheet risk to the extent of undisbursed funds in the amounts of \$1,861,000 and \$2,161,000, respectively, on the above loans.

Deposits of related parties totaled \$11,106,000 and \$9,265,000 at December 31, 2023 and 2022, respectively.

In addition, the Company leases the premises for its principal office from a related party beginning March 1, 2023 (see Note 13 – Lease Commitments and Rental Activity).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Consolidated Balance Sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Company's financial instrument commitments at December 31, 2023 and 2022 is as follows:

	2023		2022
	(In Thousands)		
Commitments to extend credit	\$	26,265	\$ 24,303
Unfunded commitments under lines of credit		125,698	131,555
Outstanding letters of credit		26,318	18,288

Currently, the Bank sells certain residential mortgages to the secondary market. There were no outstanding commitments to sell such loans at December 31, 2023 and 2022, respectively.

Commitments to extend credit and unfunded commitments under lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

NOTE 20 – REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the Pennsylvania Department of Banking and the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The consolidated asset limit on small bank holding companies is \$3 billion, and a company with assets under that limit is not subject to the consolidated capital rules but may disclose capital amounts and ratios. The Company has elected to disclose those amounts.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and Common Equity Tier 1 (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – REGULATORY MATTERS (CONTINUED)

December 31, 2023, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2023 and 2022, the most recent notification from the Federal Reserve Bank categorized the Bank as “Well Capitalized” under the regulatory framework for prompt corrective action. To be “Well Capitalized”, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and Common Equity Tier 1 ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The Bank’s and Company’s actual capital amounts and ratios at December 31, 2023 and 2022 are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
As of December 31, 2023:						
Total capital (to risk-weighted assets)						
Bank	\$111,474	13.67%	\$ 65,219	8.00%	\$ 81,523	10.00%
Company	101,783	12.48%				
Tier 1 capital (to risk-weighted assets)						
Bank	103,579	12.71%	48,914	6.00%	65,219	8.00%
Company	93,888	11.51%				
Tier 1 capital (to average assets)						
Bank	103,580	11.51%	35,990	4.00%	44,988	5.00%
Company	93,888	10.43%				
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	103,579	12.71%	36,685	4.50%	52,990	6.50%
Company	91,193	11.18%				
As of December 31, 2022:						
Total capital (to risk-weighted assets)						
Bank	\$ 96,483	12.66%	\$ 60,970	8.00%	\$ 76,212	10.00%
Company	97,236	12.74%				
Tier 1 capital (to risk-weighted assets)						
Bank	87,409	11.47%	45,727	6.00%	60,970	8.00%
Company	88,161	11.55%				
Tier 1 capital (to average assets)						
Bank	87,409	9.42%	37,123	4.00%	46,404	5.00%
Company	88,161	9.49%				
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	87,409	11.47%	34,296	4.50%	49,538	6.50%
Company	85,386	11.19%				

NOTE 21 – FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – FAIR VALUE MEASUREMENTS (CONTINUED)

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the assets.

This hierarchy requires the use of observable market data when available.

The following table presents the assets and liabilities reported on the Consolidated Balance Sheets at their fair value as of December 31, 2023 and 2022 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2023			
	Level I	Level II	Level III	Total
<i>(In Thousands)</i>				
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. treasuries	\$ -	\$ 41,161	\$ -	\$ 41,161
Mortgage-backed securities in government-sponsored entities	-	21,254	-	21,254
Trust-preferred obligations	-	761	-	761
Corporate notes in financial institutions	-	28,243	1,000	29,243
Other	216	-	-	216
Interest rate swap	-	6,498	-	6,498
Total	\$ 216	\$ 97,917	\$ 1,000	\$ 99,133
Liabilities measured on a recurring basis:				
Interest rate swap	-	(5,044)	-	(5,044)
Total	\$ -	\$ (5,044)	\$ -	\$ (5,044)
December 31, 2022				
	Level I	Level II	Level III	Total
<i>(In Thousands)</i>				
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. treasuries	\$ -	\$ 143,831	\$ -	\$ 143,831
Mortgage-backed securities in government-sponsored entities	-	18,851	-	18,851
Trust-preferred obligations	-	738	-	738
Corporate notes in financial institutions	-	35,809	1,000	36,809
Other	213	-	-	213
Equity securities	61	713	-	774
Interest rate swap	-	8,694	-	8,694
Total	\$ 274	\$ 208,636	\$ 1,000	\$ 209,910
Liabilities measured on a recurring basis:				
Interest rate swap	-	(6,976)	-	(6,976)
Total	\$ -	\$ (6,976)	\$ -	\$ (6,976)

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – FAIR VALUE MEASUREMENTS (CONTINUED)

Investment Securities and Equity Securities

The fair value of debt and equity securities is determined by obtaining quoted market prices from nationally recognized security exchanges (Level I and II) or matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying on the securities relationship to other benchmark techniques. For certain securities which are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments are generally based on available market evidence (Level III). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on Level III investments.

Interest Rate Swaps

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designed as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed payments. The fair value of the swap asset and liability is based on an external derivative model using data inputs as of the valuation date and are classified as Level II.

The following table presents the changes in the Level III fair value category for the years ended December 31, 2023 and 2022. The Company classified financial instruments in Level III of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly.

	Fair Value Measurements Using Significant Observable Inputs (Level III)	
	Available-for-Sale Investment Securities	
	2023	2022
	(In Thousands)	
Beginning Balance	\$ 1,000	\$ 1,000
Purchases, sales, issuances, settlements, net	-	-
Total unrealized gains:		
Included in earnings	-	-
Included in other comprehensive income	-	-
Ending Balance	\$ 1,000	\$ 1,000

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide the carrying amount and the fair value for certain financial instruments that are not required to be measured or reported at fair value as of December 31, 2023 and 2022.

	2023				
<i>(In Thousands)</i>	<u>Carrying Amount</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Financial assets:					
Loans receivable, net	\$ 732,180	\$ -	\$ -	\$ 719,145	\$ 719,145
Financial liabilities:					
Deposits	\$ 701,538	\$ 476,050	\$ -	\$ 223,376	\$ 699,426
Long-term borrowings	45,000	-	-	42,358	42,358
Junior subordinated debentures	2,760	-	-	2,783	2,783
	2022				
<i>(In Thousands)</i>	<u>Carrying Amount</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Financial assets:					
Loans receivable, net	\$ 653,686	\$ -	\$ -	\$ 634,364	\$ 634,364
Financial liabilities:					
Deposits	\$ 667,477	\$ 520,646	\$ -	\$ 142,841	\$ 663,487
Long-term borrowings	55,000	-	-	50,505	50,505
Junior subordinated debentures	2,861	-	-	2,866	2,866

Cash and Due from Banks, Interest-Bearing Deposits with Other Banks, Restricted Investment in Bank Stock, Bank-Owned Life Insurance, Accrued Interest Receivable, Short-Term Borrowings and Accrued Interest Payable

The fair values are equal to the current carrying values.

NOTE 23 – DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings.

NOTE 23 – DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)**Cash Flow Hedges of Interest Rate Risk**

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments. As of December 31, 2023 and 2022, the Company had one interest rate swap with a notional of \$10 million associated with the Company's cash outflows associated with various FHLB advances, and this swap matures on February 28, 2030.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in Accumulated Other Comprehensive Income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transaction. The Company did not recognize any hedge ineffectiveness in earnings during the periods ended December 31, 2023 and 2022. Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified from interest expense as interest payments are made on the Company's variable-rate liability. The Company recorded \$415,000 and \$24,000 as a reduction to interest expense during 2023 and 2022, respectively. During the next twelve months, the Company estimates that \$378,000 will be reclassified as a decrease in interest expense.

Borrower Swaps (Non-designated Hedges)

The Company also enters into derivative contracts, which consist of interest rate swaps, to facilitate the needs of borrowers desiring to manage interest rate risk. These swaps are not designated as accounting hedges under ASC Topic 815. In order to economically hedge the interest rate risk associated with offering this product, the Company simultaneously enters into derivative contracts with a third party to offset the borrower contracts, such that the Company minimizes its net risk exposure resulting from such transactions. The derivative contracts are structured such that the notional amounts decrease over time to generally match the expected amortization of the underlying loans. These derivatives are not speculative and arise from a service provided to certain borrowers. The Company utilizes a loan hedging program to accommodate borrowers preferring a fixed rate loan. The Company simultaneously enters into a dealer facing trade exactly mirroring the terms of the loan addendum. At December 31, 2023 and 2022, the Company had interest rate swaps related to this program with an aggregate notional amount of \$44.8 million and \$49.3 million, respectively.

The Company's existing credit derivatives result from participations in or out of interest rate swaps provided by or to external lenders as part of loan participation arrangements, and therefore, are not used to manage interest rate risk in the Company's assets or liabilities. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain lenders which participate in loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 – DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)

Tabular Disclosure of Fair Values of Derivative Instruments on the Consolidated Balance Sheets

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2023 and 2022.

<i>(In Thousands)</i>	Derivative Assets					
	As of December 31, 2023			As of December 31, 2022		
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments						
Interest rate products	\$ 10,000	Other assets	\$ 1,455	\$ 10,000	Other assets	\$ 1,719
Total derivatives designated as hedging instruments			\$ 1,455			\$ 1,719
Derivatives not designated as hedging instruments						
Interest rate products	\$ 44,753	Other assets	\$ 5,043	\$ 49,269	Other assets	\$ 6,975
Other contracts	6,520	Other assets	-	6,753	Other assets	-
Total derivatives not designated as hedging instruments			\$ 5,043			\$ 6,975
Derivative Liabilities						
<i>(In Thousands)</i>	As of December 31, 2023			As of December 31, 2022		
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments						
Interest rate products	\$ -	Other liabilities	\$ -	\$ -	Other liabilities	\$ -
Total derivatives designated as hedging instruments			\$ -			\$ -
Derivatives not designated as hedging instruments						
Interest rate products	\$ 44,753	Other liabilities	\$ 5,044	\$ 49,269	Other liabilities	\$ 6,976
Other contracts	5,487	Other liabilities	-	1,534	Other liabilities	-
Total derivatives not designated as hedging instruments			\$ 5,044			\$ 6,976

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 – DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)

Tabular Disclosure of the Effects of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income

The table below presents the effect of fair value and cash flow hedge accounting on Accumulated Other Comprehensive Income as of December 31, 2023 and 2022.

	The Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income				
	Amount of Gain Recognized in OCI on Derivative		Location of Gain Reclassified from Accumulated OCI to Income	Amount of Gain Reclassified from Accumulated OCI to Income	
	Year Ended December 31, 2023	Year Ended December 31, 2022		Year Ended December 31, 2023	Year Ended December 31, 2022
<i>(In Thousands)</i>					
Derivatives in Cash Flow Hedging Relationships					
Interest rate products	\$ 151	\$ 1,437	Interest expense	\$ 415	\$ 24
Total	\$ 151	\$ 1,437		\$ 415	\$ 24

Credit-Risk-Related Contingent Features

As a result of its derivative contracts, the Company is exposed to credit risk. Specifically, approved counterparties and exposure limits are defined. On at least an annual basis, the customer derivative contracts and related counterparties are evaluated for credit risk with an adjustment made to the contracts' fair value.

The Company has agreements with its derivative counterparty that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations. These agreements also contain a provision where if the Company fails to maintain its status as a "well capitalized" or "adequately capitalized" institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under these agreements.

As of December 31, 2023, the Company had derivatives in a net asset position and the counterparty was required to post a minimum of \$6,552,000 in collateral positions against its obligations under these agreements. As of December 31, 2022, the Company had derivatives in a net asset position and the counterparty was required to post a minimum of \$8,673,000 in collateral positions against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2023 and 2022, it could have been required to settle its obligations under the agreement at the termination value. At December 31, 2023, the derivative counterparty had required collateral with the Company in the amount of \$6,430,000. At December 31, 2022, the derivative counterparty had required collateral with the Company in the amount of \$8,580,000.

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in accumulated other comprehensive (loss) income by component net of tax for the years ended December 31, 2023 and 2022.

<i>(In Thousands)</i>	Accumulated Other Comprehensive (Loss) Income		
	Unrealized (Losses) Gains on Available- for-Sale Securities	Derivatives	Total
Balance as of December 31, 2022	\$ (4,837)	\$ 1,358	\$ (3,479)
Other comprehensive income before reclassifications	2,324	120	2,444
Amounts reclassified from accumulated other comprehensive loss	(19)	(328)	(347)
Period change	2,305	(208)	2,097
Balance at December 31, 2023	\$ (2,532)	\$ 1,150	\$ (1,382)
Balance as of December 31, 2021	\$ (127)	\$ 241	\$ 114
Other comprehensive (loss) income before reclassifications	(4,710)	1,136	(3,574)
Amounts reclassified from accumulated other comprehensive loss	-	(19)	(19)
Period change	(4,710)	1,117	(3,593)
Balance at December 31, 2022	\$ (4,837)	\$ 1,358	\$ (3,479)

<i>(In Thousands)</i>	Amounts Reclassified from Accumulated Other Comprehensive Income for the Year Ended December 31,		Affected Line Item in the Consolidated Statements of Income
	2023	2022	
Available-for-Sale Securities:			
Loss on sale, effective portion	\$ 24	-	Net loss on sale of investment security
Related income tax expense	(5)	-	Income tax expense
Net effect on accumulated other comprehensive (loss) income for the period	19	-	
Derivatives and Hedging Activities:			
Interest expense, effective portion	415	24	Interest expense
Related income tax expense	(87)	(5)	Income tax expense
Net effect on accumulated other comprehensive (loss) income for the period	328	19	
Total reclassifications for the period	\$ 347	\$ 19	

(a) All amounts are net of tax. Debits are indicated by amounts in parentheses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 – SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes supplemental cash flow information for the years ended December 31:

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	\$ 15,171	\$ 6,494
Income taxes	\$ 2,400	\$ 2,590
NONCASH ITEMS		
Dividends payable	\$ 886	\$ 887

NOTE 26 – CONDENSED FINANCIAL INFORMATION OF AMERICAN BANK INCORPORATED (PARENT COMPANY ONLY)

BALANCE SHEETS

	December 31,	
	2023	2022
	(In Thousands)	
ASSETS		
Cash and cash equivalents	\$ 956	\$ 525
Equity securities	-	774
Investment in bank subsidiary	102,263	84,016
Other assets	202	82
Total Assets	<u>\$ 103,421</u>	<u>\$ 85,397</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	\$ 10,000	\$ -
Corporate obligation for junior subordinated debentures	2,760	2,861
Other liabilities	850	628
Stockholders' equity	89,811	81,908
Total Liabilities and Stockholders' Equity	<u>\$ 103,421</u>	<u>\$ 85,397</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 – CONDENSED FINANCIAL INFORMATION OF AMERICAN BANK INCORPORATED (PARENT COMPANY ONLY) (CONTINUED)

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
INCOME		
Dividend from subsidiary	\$ 5,250	\$ 4,250
Dividend income on equity securities	4	2
Interest income on other securities	-	1
Net gains on equity securities	12	112
Total income	<u>5,266</u>	<u>4,365</u>
EXPENSES		
Interest expense on short-term borrowings	12	-
Interest expense on corporate obligation for junior subordinated debentures	165	211
Operating expenses	94	151
Total expenses	<u>271</u>	<u>362</u>
Income before income taxes	4,995	4,003
Income tax benefit	<u>(47)</u>	<u>(37)</u>
Income before equity in undistributed earnings of bank subsidiary	5,042	4,040
Equity in undistributed earnings of bank subsidiary	<u>4,270</u>	<u>6,075</u>
Net income	<u>\$ 9,312</u>	<u>\$ 10,115</u>
Comprehensive income	<u>\$ 11,409</u>	<u>\$ 6,522</u>

AMERICAN BANK INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 – CONDENSED FINANCIAL INFORMATION OF AMERICAN BANK INCORPORATED (PARENT COMPANY ONLY) (CONTINUED)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2023	2022
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 9,312	\$ 10,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Compensation expense on stock options	36	72
Net gains on equity securities	(12)	(112)
Other, net	103	37
Equity in undistributed earnings of Bank subsidiary	(4,270)	(6,075)
Net cash provided by operating activities	<u>5,169</u>	<u>4,037</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of held-to-maturity investment securities	-	200
Proceeds from sales of equity securities	1,041	24
Purchases of equity securities	(255)	-
Net cash provided by investing activities	<u>786</u>	<u>224</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term borrowings	10,000	-
Repayment of junior subordinated debentures	(101)	(3,300)
Conversion of trust-preferred securities to common shares	59	3,280
Dividends paid to shareholders	(4,176)	(3,703)
Dividends paid to subsidiary	(11,038)	-
Sale of SERP shares	-	8
Exercise of stock options	24	35
Purchase of shares into Treasury	(305)	(392)
Treasury shares released to ESOP	13	-
Net cash used in financing activities	<u>(5,524)</u>	<u>(4,072)</u>
Increase in cash and cash equivalents	431	189
CASH AND CASH EQUIVALENTS		
Beginning	<u>525</u>	<u>336</u>
Ending	<u>\$ 956</u>	<u>\$ 525</u>

NOTE 27 – REVENUE RECOGNITION

Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with non-interest revenue from investment security gains, gains on sales of residential mortgage loans sold and earnings on bank-owned life insurance are not within the scope of ASC Topic 606.

The main types of non-interest income within the scope of the standard are service charges on deposit accounts, loan swap fees, and fees, exchange and other service charges.

NOTE 27 – REVENUE RECOGNITION (CONTINUED)**Service charges on deposit accounts**

Service charges on deposit accounts primarily consist of check orders and other deposit account related fees, and these charges are largely transactional based. Therefore, the Company's performance obligation is satisfied, and the related revenue recognized, at a point in time.

Loan swap fees

From time to time, the Company enters into swap transactions with its borrowers in connection with floating rate loans. The Company then executes offsetting swap transactions with its dealer counterparty. To the extent that the dealer counterparty transaction is above-market, the Company receives loan swap fees for the excess of the derivative above market. The Company recognizes loan swap fees upon receipt as non-interest income net of any fees.

Fees, exchange and other service charges

Fees, exchange and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant card income and other service charges.

The Company issues debit and credit cards to its customers who use the cards to purchase goods and services from merchants through an electronic payment system. As a card issuer, the Company earns fees, including interchange income, for processing the cardholder's purchase transaction with a merchant through a settlement network. Purchases are charged directly to a customer's checking account (in the case of a debit card) or are posted to a customer's credit card account. The fees earned are established by the settlement network and are dependent on the type of transaction processed. Interchange income, the largest component of debit and credit card income, is settled daily through the networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a company ATM. The Company offers merchant processing services to its business customers to enable them to accept credit and debit card payments through a Company-provided merchant terminal. Other service charges include revenue from processing wire transfers, cashier's checks and other services. The Company's performance obligation for fees, exchange and other service charges are largely satisfied, and the related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately when the services are rendered or in the following month.

The Company determined that the level of disaggregation of revenue as reported on the Consolidated Statements of Income provided a sufficient level of detail in order to properly analyze its significant revenue streams, and therefore, no further disaggregation of any revenue streams within the scope of ASC Topic 606 was considered necessary.

NOTE 28 – SUBSEQUENT EVENTS

Management has reviewed events occurring through March 15, 2024, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

STOCKHOLDER INFORMATION

Stock Listing

Our common stock trades on the OTC Pink under the symbol “AMBK.”

For information with respect to American Capital Trust I preferred stock, please contact American Bank at (610) 973-8145 or investors@ambk.com.

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Stockholder Communication with the Board of Directors

Stockholders of American Bank Incorporated may communicate with the Board of Directors by e-mail at boardofdirectors@ambk.com or by writing to:

American Bank Incorporated
Attention: Board of Directors
Mark W. Jandl, Chairman
615 Waterfront Drive, Suite 501
Allentown, PA 18102

DIRECTORS AND OFFICERS

Directors

Mark W. Jaindl
*Chairman, President and CEO
American Bank Incorporated*

John F. Eureyecko
*President and CEO
Belhaven Capital Group*

John W. Galuchie, Jr.
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Zachary J. Jaindl
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Karina F. Behler
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Mark W. Jaindl
Chairman and CEO

Chris J. Persichetti
*President and
Chief Lending Officer*

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*Executive Vice President and
Chief Financial Officer*

Louis Monaco, III
*Senior Vice President and
Regional President,
Philadelphia Market Area*

Karina F. Behler
*Senior Vice President and
Chief Operating Officer*

Robert W. Turner
*Senior Vice President and
Chief Information Officer*

Brian P. Farrell
*Senior Vice President and
Chief Credit & Risk Officer*

“As we enter 2024, know that American Bank is strong, stable, and optimistic about what lies ahead. We are focused on continuing to serve our customers, our community and you, our shareholders, by investing in the resources that will allow us to respond to the evolving banking environment.”

Mark Jandl
Chairman, President and CEO

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