Celebrating

Years

2022 Annual Report

American Bank Incorporated

Consolidated Financial Highlights

(Dollars in Thousands, except per share data)	2022	2021	Percentage Change
AT YEAR END			
Assets	$ 927,284	$ 849,150	9.2%
Loans receivable, net	653,686	606,572	7.8%
Deposits	667,477	660,880	1.0%
Stockholders' Equity	81,908	76,250	7.4%
FOR THE YEAR			
Net Interest Income	$ 23,587	$ 21,640	9.0%
Net Income	10,115	10,103	0.1%
PER SHARE DATA			
Earnings – Basic	$ 1.63	$ 1.82	(10.4%)
Earnings – Diluted	1.57	1.68	(6.5%)
Book Value	12.94	12.78	1.3%
FINANCIAL RATIOS			
Return on average assets	1.13%	1.28%	
Return on average equity	12.71%	14.40%	
Average stockholders' equity to average assets	8.90%	8.91%	
Net interest margin	2.76%	2.90%	
Net interest spread	2.56%	2.74%	
Non-interest expense to average assets	1.37%	1.38%	
Efficiency ratio	48.36%	45.04%	
Non-accruing loans/Total loans	0.05%	0.06%	
Allowance for loan losses/Non-performing loans	2,883.82%	2,497.07%	

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American Bank Incorporated

March 24, 2023

Dear Fellow Shareholder:

I am proud to present to you our Annual Report as 2022 marked the sixth straight year of record earnings at American Bank. A major highlight this year was achieving $10 million in net income for the second straight year while surpassing $900 million in assets at the end of 2022. Our accomplishments reflect not only the continued strength of your Company but our commitment to staying true to our mission statement of serving our customers, associates, shareholders, and community.

Revenue Growth

Net income was $10,115,000 for the year ended December 31, 2022, a 0.1% increase from net income of $10,103,000 for the year ended December 31, 2021. The increase in net income for the year ended December 31, 2022 was primarily due to an increase in net interest income and a decrease in the provision for loan losses, offset by a decrease in non-interest income and an increase in non-interest expense. Net interest income increased $1.9 million, or 9.0%, to $23.5 million, as compared to $21.6 million for the year ended December 31, 2021. The increase in net interest income was primarily due to significant growth in the commercial loan portfolio and the Bank purchasing higher-yielding investment securities with excess liquidity. This increase was significant given the Bank had non-recurring fee income of $2.7 million from the SBA's Paycheck Protection Program (PPP) in 2021 and only $159,000 of PPP fee income in 2022.

Strength of the Balance Sheet

Our balance sheet continued to grow and exceeded our 2022 strategic plan as total assets grew $78.1 million or 9.2% to $927.3 million compared to $849.2 million at December 31, 2021. Net loans outstanding increased by $47.2 million, or 7.8%, to $653.7 million from $606.5 million at December 31, 2021. As has consistently been the case for many years, we maintained our emphasis on serving the needs of small and medium sized businesses and, as a result, we experienced an increase in our commercial loan portfolio, which included over $52.0 million in organic loan growth. This increase was offset by $4.7 million in PPP loan forgiveness payments received during the year. However, our focus on credit quality was as important as increasing our loan portfolio. While our loan portfolio continued to grow at a steady pace, your Company did not waver on its conservative underwriting standards and, as a result, there was only one non-accruing loan totaling $309,000 as of December 31, 2022. Total deposits grew $6.6 million, or 1.0%, to $667.5 million at December 31, 2022, from $660.9 million at December 31, 2021.

Overview of Earnings Ratios

We saw slight declines in both our return on assets and our return on equity primarily due to the significant growth in our balance sheet. Return on assets decreased to 1.13% from 1.28% for the same period in 2021. Return on equity for 2022 was 12.71% compared to 14.40% for the same period in 2021. Your Company's return on equity continues to outperform its peers and, as a result, we were again recognized as one of the Top 50 Community Banks in the nation, and the Top Community Bank in the Lehigh Valley, by American Banker Magazine.

Our efficiency ratio increased slightly to 48.36% from 45.04% for the same period in 2021 as we continued to operate from one location. The non-interest expense to average assets ratio decreased to 1.37% from 1.38% for the same period in 2021. American Bank's operating expense to average assets ratio remains one of the lowest in the country.

Enhancing Shareholder Value

We appreciate the confidence that you as a shareholder have placed in our Board of Directors and management team as we execute our strategic plan during an ever-changing economic environment. Dividends totaling $0.60 cents per share were paid in 2022, including a $0.10 special dividend paid in April 2022. Our dividend payout ratio was 36.6% for 2022, up from 30.8% for 2021. In January 2023, our Board of Directors declared a dividend of $0.14 per share of common stock payable on April 3, 2023, and a special dividend of $0.10 per share of common stock payable on April 19, 2023. This year marks the 19th consecutive year of paying dividends, illustrating our recognition of your support as a shareholder.

Looking Ahead to 2023

As I write this letter, the impact of rising inflation and interest rates continues to be of concern to the economy. We remain cautiously optimistic and will continue our steadfast approach of thorough loan underwriting and expense control, while implementing measures to enhance shareholder value and improve the overall customer experience. These measures include the continued evaluation of our loan and investment portfolios to ensure we are maintaining strong asset quality and a balance sheet that is "Asset Sensitive" to increases in interest rates. Through strategic planning, our investment portfolio has maintained a duration of approximately one year. The lower a bank's duration, the more favorable impact to earnings in a rising interest rate environment. This is even more important to future earnings as we, like most banks throughout the country, are seeing margins negatively impacted by the ongoing increase in deposit rates.

However, we are entering our 26th year of operation with optimism and enthusiasm as we look to capitalize on strategic opportunities for growth and expansion. In March, we transitioned some of our team members to new office space at the Mohrbanc Building located at The Waterfront, a lifestyle campus under development along the Lehigh River in Allentown, PA. While we will continue to have our branch location on West Tilghman Street in Allentown, several of our executive offices, including our Commercial and Residential Lending teams, will operate out of this new location. This location will afford us new opportunities to serve customers more easily and conveniently from a central location within the Lehigh Valley.

We have built a bank that our shareholders can be proud of, and this would not have been possible without the efforts put forth by your team – which includes the Board of Directors, management, and staff of American Bank. Each one of them are to be commended for American Bank's growth and success this year and I look forward to working with them to serve our customers and community during 2023.

On behalf of the Board of Directors, thank you for your investment in and continued support of American Bank.

Mark W. Jaindl

Mark W. Jaindl
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,				
	2022	2021	2020	2019	2018
			(In Thousands)		
Selected Financial Condition Data:					
Total assets	$ 927,284	$ 849,150	$ 734,290	$ 641,552	$ 621,903
Loans receivable, net	653,686	606,572	586,949	517,435	494,033
Equity securities	774	686	490	629	512
Investment securities available-for-sale	200,442	77,841	55,302	60,014	61,544
Investment securities held-to-maturity	-	200	200	205	205
Deposits	667,477	660,880	550,941	477,127	468,659
Short-term borrowings	101,767	37,464	37,860	25,892	30,331
Long-term borrowings	55,000	65,000	65,000	65,000	55,000
Junior subordinated debentures	2,861	6,199	10,086	10,111	10,111
Stockholders' equity	81,908	76,250	66,364	60,661	55,232

	For the year ended December 31,				
	2022	2021	2020	2019	2018
	(Dollars in thousands, except per share data)				
Selected Operating Data:					
Total interest income	$ 30,257	$ 27,374	$ 26,817	$ 26,010	$ 23,991
Total interest expense	6,670	5,734	6,984	7,650	6,347
Net interest income	23,587	21,640	19,833	18,360	17,644
Provision for loan losses	388	521	969	205	491
Net interest income after provision for loan losses	23,199	21,119	18,864	18,155	17,153
Total non-interest income	1,743	2,435	2,191	1,394	1,059
Total non-interest expense	12,249	10,843	10,212	9,610	9,755
Income before income tax expense	12,693	12,711	10,843	9,939	8,457
Income tax expense	2,578	2,608	2,129	2,058	1,611
Net income	$ 10,115	$ 10,103	$ 8,714	$ 7,881	$ 6,846
Dividends paid per share	$ 0.60	$ 0.56	$ 0.48	$ 0.46	$ 0.39
Earnings per share - basic	$ 1.63	$ 1.82	$ 1.57	$ 1.41	$ 1.22
Earnings per share - diluted	$ 1.57	$ 1.68	$ 1.37	$ 1.24	$ 1.08
Performance Ratios:					
Return on assets (ratio of net income to average assets)	1.13%	1.28%	1.25%	1.24%	1.12%
Return on equity (ratio of net income to average equity)	12.71%	14.40%	13.73%	13.44%	12.76%
Average interest rate spread	2.56%	2.74%	2.91%	2.97%	2.96%
Net interest margin (ratio of net interest income divided by average earning assets)	2.76%	2.90%	3.00%	3.07%	3.04%
Ratio of operating expense to average assets	1.37%	1.38%	1.46%	1.52%	1.60%
Ratio of average interest-earning assets to average interest-bearing liabilities	125.20%	119.40%	108.50%	107.50%	107.20%
Asset Quality Ratios:					
Non-accruing loans to total loans at end of year	0.05%	0.06%	0.08%	0.06%	0.09%
Allowance for loan losses to non-performing loans	2,883.82%	2,497.07%	1,751.75%	1,994.13%	1,516.16%
Allowance for loan losses to total gross loans	1.35%	1.38%	1.34%	1.30%	1.32%
Capital Ratios:					
Stockholders' equity to total assets at end of year	8.83%	8.98%	9.04%	9.46%	8.88%
Average stockholders' equity to average assets	8.90%	8.91%	9.07%	9.26%	8.78%

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 and AMBK Services 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, and the purpose of AMBK Services LLC is to pay compensation and benefits for employees of the subsidiary. 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 a single office 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 loan 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, 2022, we recorded net income of $10.1 million, compared to net income of $10.1 million for the year ended December 31, 2021. Net interest income increased $1.9 million, or 9.0%, to $23.5 million for the year ended December 31, 2022 from $21.6 million for the year ended December 31, 2021. The provision for loan losses decreased $133,000, or 25.5%, to $388,000 for the year ended December 31, 2022 compared to $521,000 for the year ended December 31, 2021. Non-interest income decreased $0.7 million, or 29.2%, to $1.7 million for the year ended December 31, 2022 compared to $2.4 million for the year ended December 31, 2021, while non-interest expense increased $1.4 million, or 13.0%, to $12.2 million for the year ended December 31, 2022 compared to $10.8 million for the year ended December 31, 2021.

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 policies are identified by management as being critical to the results of operations:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to absorb credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of the most critical for us.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews, the present value of future cash flows and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The allowance for loan losses consists of specific and general components and at times, it may include an unallocated component. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. Actual loan losses may be significantly more than the reserves we have established, which could have a material negative effect on our financial results.

Derivatives Instruments and Hedging Activities. We record 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 we have elected to designate a derivative in the 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 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 forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or we elect not to apply hedge accounting.

Other-Than-Temporary Impairment of Investment Securities. Management evaluates the individual securities in the investment portfolio for other-than-temporary impairment on at least a quarterly basis. The evaluation considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the current interest rate cycle and the expected direction of interest rates in the near-term horizon, and our intent and ability to retain our investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value.

Investment securities, excluding equity securities, that are determined to be other-than-temporarily impaired are recorded at the then current fair value and the loss that is associated with a decline in credit quality is recorded in current income. The other-than-temporary decline in value that is associated with interest rates is recorded in other comprehensive income. Subsequent recoveries in fair value of the credit component are not recorded in the carrying value of the investment and gain is not recognized until the investment security is sold.

We did not recognize any other-than-temporary impairment charges for the years ended December 31, 2022 and 2021.

In management's opinion, the unrealized losses in the investment portfolio at December 31, 2022 and 2021 reflect changes in interest rates subsequent to the acquisition of specific securities. Management believes that the unrealized losses represent temporary impairment of the securities.

Deferred Tax Assets. We use an estimate of future earnings to support its position that the benefit of its deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized, and net income will be reduced. Management also evaluates deferred tax assets to determine if it more likely than not that the deferred tax benefit will be utilized in future periods. If not, a valuation allowance is recorded. Deferred tax assets are described further in Note 17 – Income Taxes of the consolidated financial statements.

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, 2022. 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, 2022
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	$ 13,586	$ -	$ -	$ -	$ -	$ -	$ 13,586
Loans receivable	174,319	73,926	101,343	242,579	48,153	22,049	662,369
Equity securities	324	-	-	-	-	-	324
Mortgage-backed securities	11,573	-	-	-	495	8,088	20,156
Investment securities	115,574	53,388	7,933	9,513	-	-	186,408
Bank-owned life insurance	22,857	-	-	-	-	-	22,857
Restricted investment in bank stock	6,607	-	-	-	-	-	6,607
Total interest-earning assets	$ 344,840	$ 127,314	$ 109,276	$ 252,092	$ 48,648	$ 30,137	$ 912,307
Interest-bearing liabilities:							
Demand deposits	$ 46,038	$ 36,830	$ 27,623	$ 27,623	$ 27,623	$ 18,415	$ 184,152
Savings deposits	54,377	43,500	32,625	32,625	32,625	21,750	217,502
Time deposits	84,906	53,385	4,903	3,637	-	-	146,831
Borrowings	111,767	20,000	15,000	-	10,000	-	156,767
Junior subordinated debentures	-	-	-	-	-	2,861	2,861
Total interest-bearing liabilities	$ 297,088	$ 153,715	$ 80,151	$ 63,885	$ 70,248	$ 43,026	$ 708,113
Interest sensitivity gap	$ 47,752	$ (26,401)	$ 29,125	$ 188,207	$ (21,600)	$ (12,889)	$ 204,194
Cumulative interest sensitivity gap	$ 47,752	$ 21,351	$ 50,476	$ 238,683	$ 217,083	$ 204,194	$ 204,194
Ratio of gap to total interest-earning assets	5.2%	(2.9)%	3.2%	20.6%	(2.3)%	(1.4)%	22.4%
Ratio of cumulative gap to total interest-earning assets	5.2%	2.3%	5.5%	26.1%	23.8%	22.4%	22.4%

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, 2022, we were asset-sensitive over a time horizon of up to 12 months by $47.8 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 negative 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,								
	2022			2021			2020		
	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	$ 23,943	$ 203	0.85%	$ 72,063	$ 93	0.13%	$ 25,329	$ 102	0.40%
Loans receivable, net	640,968	26,753	4.17	606,121	26,400	4.36	574,601	25,448	4.43
Equity securities	330	2	0.61	330	1	0.30	330	1	0.30
Mortgage-backed securities	21,438	446	2.08	31,213	337	1.08	27,347	415	1.52
Investment securities	164,028	2,586	1.58	32,876	291	0.89	28,679	608	2.12
Restricted inv. in bank stock	5,103	267	5.23	4,498	252	5.60	4,428	243	5.49
Total interest-earning assets	855,810	30,257	3.54	747,101	27,374	3.66	660,714	26,817	4.06
Interest-bearing liabilities:									
Demand deposits	189,084	472	0.25	173,383	372	0.21	194,080	364	0.19
Savings deposits	227,380	1,249	0.55	198,292	651	0.33	150,744	926	0.61
Time deposits	144,558	2,082	1.44	145,415	2,091	1.44	157,732	3,008	1.91
Borrowings	118,850	2,656	2.23	98,823	2,084	2.11	96,351	2,094	2.17
Junior subordinated debentures	3,804	211	5.55	9,790	536	5.47	10,090	592	5.87
Total interest-bearing liabilities	683,676	6,670	0.98	625,703	5,734	0.92	608,997	6,984	1.15
Net interest income		$ 23,587			$ 21,640			$ 19,833	
Net interest rate spread			2.56%			2.74%			2.91%
Net earning assets	$ 172,134			$ 121,398			$ 51,717		
Net yield on average interest-earning assets			2.76%			2.90%			3.00%
Ratio of interest-earning assets to interest-bearing liabilities	125.2%			119.4%			108.5%		

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, 2022 v. 2021			For the Years Ended December 31, 2021 v. 2020		
	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	$ (63)	$ 173	$ 110	$ 190	$ (199)	$ (9)
Loans receivable, net	1,519	(1,166)	353	1,396	(444)	952
Mortgage-backed securities	(105)	214	109	58	(136)	(78)
Investment securities	1,167	1,129	2,296	89	(406)	(317)
Restricted inv. in bank stock	34	(19)	15	4	5	9
Total interest-earning assets	2,552	331	2,883	1,737	(1,180)	557
Interest-bearing liabilities:						
Demand deposits	33	67	100	(39)	47	8
Savings deposits	96	502	598	290	(565)	(275)
Time deposits	(12)	3	(9)	(235)	(682)	(917)
Borrowings	423	149	572	53	(63)	(10)
Junior subordinated debentures	(327)	2	(325)	(18)	(38)	(56)
Total interest-bearing liabilities	213	723	936	51	(1,301)	(1,250)
Net interest income	$ 2,339	$ (392)	$ 1,947	$ 1,686	$ 121	$ 1,807

Comparison of Operating Results for the Years Ended December 31, 2022 and 2021

Net Income

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%. For the year ended December 31, 2021, we reported net income of $10.1 million, or $1.68 per diluted share for a return on average assets of 1.28% and a return on average equity of 14.40%. The increase in net income for the year ended December 31, 2022 was primarily the result of an increase in net interest income and a decrease in the provision for loan losses, offset by a decrease in non-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 increased $1.9 million, or 9.0%, to $23.5 million for the year ended December 31, 2022, as compared to $21.6 million for the year ended December 31, 2021. Average interest-earning assets increased to $855.8 million for the year ended December 31, 2022, an increase of $108.7 million, or 14.5%, as compared to the average of $747.1 million for the year ended December 31, 2021. Average interest-bearing liabilities increased to $683.7 million for the year ended December 31, 2022, an increase of $58.0 million, or 9.3%, compared to the average of $625.7 million for the year ended December 31, 2021.

The increase in net interest income was primarily due to significant growth in the commercial loan portfolio and the Bank purchasing higher-yielding investment securities with excess liquidity. The increase in net interest income in 2022 was in addition to non-recurring $2.7 million of Paycheck Protection Program ("PPP") fees recorded in loan interest income in 2021. In 2021, the Bank participated in the Small Business Administration's Paycheck Protection Program established under the Coronavirus Aid, Relief and Economic Security Act ("the Act"). This Act expanded the SBA's 7(a) loan program to help small businesses cover their near-term operating expenses and retain employees. During 2021, the Bank originated $40.6 million in PPP loans for its borrowers affected by COVID-19 and received $1.9 million in fees associated with processing of these loans. These fees were deferred and amortized over the life of the loan as an adjustment to yield. For the year ended December 31, 2021, $2.7 million was recorded in loan interest income as a result of normal amortization and forgiveness of PPP loans, compared to $159,000 recorded during the year ended December 31, 2022.

The yield on average interest-earning assets was 3.54% for the year ended December 31, 2022, a decrease of 12 basis points from the yield of 3.66% for the year ended December 31, 2021. The cost of funds was 0.98% for the year ended December 31, 2022, an increase of 6 basis points from the cost of funds of 0.92% for the year ended December 31, 2021. The increase in the cost of funds was primarily due to increases in interest rates paid on the Bank's deposit products and the Bank's 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 14 basis points to 2.76% for the year ended December 31, 2022, as compared 2.90% for the year ended December 31, 2021.

Provision for Loan Losses

Management records a provision for loan losses in amounts that result in an allowance for loan losses that management believes is sufficient to absorb losses inherent in the loan portfolio. Management's evaluation includes such factors as past loan loss experience, economic conditions, delinquency statistics and re-evaluation of the credit quality of the loans in the portfolio. During the year ended December 31, 2022, the provision for loan losses amounted to $388,000, a decrease of $133,000, or 25.5%, from the $521,000 provision for the year ended December 31, 2021. The provision for loan losses was lower in 2022 due to higher loan payoffs than the prior year and decreases in qualitative factors in the Allowance for Loan Losses calculation based on improved performance of the Bank's borrowers as they recovered from the COVID-19 pandemic.

During the year 2022, we charged off one loan totaling $10,000 and received $18,000 in recoveries of previously charged-off loans. During the year 2021, we charged off zero loans and received $6,000 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, 2022, the allowance for loan losses as a percentage of total gross loans was 1.35% compared to 1.38% at December 31, 2021. Management considers the allowance for loan losses at December 31, 2022 to be adequate for the inherent risks of loss in the loan portfolio at that date.

Non-Interest Income

Total non-interest income for the year ended December 31, 2022 was $1.7 million, a decrease of $0.7 million, or 29.2%, from the $2.4 million for the year ended December 31, 2021. Service fees on deposit accounts increased $35,000 or 44.3% to $114,000 for the year ended December 31, 2022 from $79,000 for the year ended December 31, 2021. Loan swap fees were $31,000 for the year ended December 31, 2022 as compared to $466,000 for the year ended December 31, 2021. Net gains on sales of residential mortgage loans decreased $339,000 to $135,000 during 2022, the result of the Bank originating only $7.0 million in loans to be sold on the secondary market compared to $27.8 million in 2021. The Bank recorded $18,000 in a net gain on the sale of an equity security in 2022. Net gains on equity securities held were $94,000 for the year ended December 31, 2022 compared to $196,000 for the year ended December 31, 2021. Earnings on bank-owned life insurance were $492,000 at December 31, 2022, an increase of $88,000 compared to 2021 due to an additional $800,000 purchased during 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 $43,000 to $859,000 for the year ended December 31, 2022 from $816,000 for the year ended December 31, 2021, which was primarily due to increases in merchant card and credit card income.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2022 increased $1.4 million, or 13.0%, to $12.2 million as compared to $10.8 million for the year ended December 31, 2021. Salaries and employee benefits for the year ended December 31, 2022 totaled $6.8 million, an increase of $482,000 as compared to salaries and employee benefits for the year ended December 31, 2021. The increase was primarily the result of higher employee benefit costs and merit pay increases. Equipment and data processing expense increased $68,000 to $927,000 for the year ended December 31, 2022 compared to 2021. Equipment and data processing expense was higher in 2022 due to additional costs for website enhancements and software expenses. Other changes in non-interest expense categories from the period ending December 31, 2021 to December 31, 2022 were as follows: Occupancy expense increased $4,000 to $693,000; Hosted services increased $77,000 to $348,000; Professional fees increased $49,000 to $404,000; Pennsylvania bank shares tax expense increased $23,000 to $717,000; and Federal deposit insurance expense increased $55,000 to $257,000. Other expense increased $648,000 to $2.1 million primarily due to higher merchant card expenses, increased marketing efforts surrounding the Bank's 25th anniversary, and costs associated with the setup of two new bank subsidiaries.

Income Tax Expense

Income tax expense decreased $30,000 or 1.2% to $2.6 million for the year ended December 31, 2022 compared to 2021. Income before income tax expense was $18,000 lower for the year ended December 31, 2022 than the prior year, which contributed to the decrease in income tax expense. The effective income tax rate for the year ended December 31, 2022 was 20.3%, compared to 20.5% for the year ended December 31, 2021.

Comparison of Financial Condition at December 31, 2022 and 2021

Overview

Total Assets

Total assets increased to $927.3 million at December 31, 2022 from $849.2 million at December 31, 2021, an increase of $78.1 million, or 9.2%.

Cash and Cash Equivalents

Cash and cash equivalents decreased $102.6 million, or 86.1%, to $16.5 million at December 31, 2022 compared to $119.1 million at December 31, 2021. This decrease was primarily attributable to strong organic loan growth and the Bank purchasing higher-yielding investment securities with excess liquidity.

Equity Securities

Equity securities increased $88,000 or 12.8% to $774,000 at December 31, 2022 compared to $686,000 at December 31, 2021. There was one sale of equity securities during 2022 for a gain of $18,000, and there were no sales of equity securities the year ended December 31, 2021. Net appreciation in fair value recorded in earnings during 2022 and 2021 was $94,000 and $196,000, respectively.

Investment Securities

Total investment securities increased $122.4 million or 156.9%, to $200.4 million at December 31, 2022 compared to $78.0 million at December 31, 2021. Investment securities available-for-sale increased $122.6 million or 157.6% to $200.4 million at December 31, 2022 compared to $77.8 million at December 31, 2021. The increase was due to the Bank's decision to reinvest excess liquidity into shorter term investments to improve the yield earned. Investment securities classified as held-to-maturity decreased from $200,000 to $0 for the year ended December 31, 2022 due to an investment maturity.

There were no sales of investment securities available-for-sale for the years ended December 31, 2022 and 2021.

For the year ended December 31, 2022 and 2021, management determined that there were no investment securities that were other-than-temporarily impaired.

In management's opinion, the unrealized losses in the investment portfolio reflect changes in interest rates subsequent to the acquisition of the related securities. We have the ability to hold these securities until maturity or market price recovery. Management believes that the unrealized losses represent temporary impairment of these securities.

Loans Receivable

Loans receivable, net of the allowance for loan losses and deferred origination fees and costs, was $653.7 million at December 31, 2022, an increase of $47.2 million, or 7.8%, compared to the December 31, 2021 balance of $606.5 million. Loans receivable represented 70.5% of total assets at December 31, 2022, compared to 71.4% of total assets at December 31, 2021.

Commercial, industrial and other loans (not secured by real estate) increased $5.6 million, or 7.4%, to $81.4 million at December 31, 2022, from $75.8 million at December 31, 2021. Commercial mortgage loans increased $33.4 million, or 7.1%, to $502.0 million at December 31, 2022, compared to $468.6 million at December 31, 2021. Commercial construction loans decreased $2.4 million, or 5.2%, to $43.5 million at December 31, 2022, compared to $45.9 million at December 31, 2021. Included in Commercial, industrial and other loans at December 31, 2021 were 25 loans totaling $4.7 million originated by us under the SBA's Paycheck Protection Program in 2021, but there were $0 PPP loans outstanding at December 31, 2022.

Excluding PPP loans, the commercial loan portfolio experienced $41.2 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 2022.

In 2022, we originated $164.3 million in commercial, commercial mortgage and commercial construction loans, but experienced $68.8 million in payoffs. We experienced a large number of payoffs primarily due to numerous borrowers selling their investment real estate due to the strong sellers' market and the borrowers' ability to reinvest those funds into other real estate assets through 1031 transactions.

Residential mortgage loans totaled $24.4 million at December 31, 2022, an increase of $9.7 million, or 66.0%, compared to $14.7 million at December 31, 2021. The increase was the result of the Bank keeping residential loans in portfolio instead of selling them into the secondary market. We originated $13.8 million of residential mortgage loans with terms of 15 to 30 years during 2022 and sold or have contracts to sell $7.0 million to the secondary market.

Consumer loans increased $1.1 million, or 11.0%, to $11.1 million at December 31, 2022, from $10.0 million at December 31, 2021.

Allowance for Loan Losses

We have established a systematic methodology for the determination of the provision for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for an overall general valuation allowance as well as specific allowances that are tied to individual loans.

In originating loans, we recognize that losses will occur and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan. The general valuation allowance is maintained to cover losses inherent in the loan portfolio. Management's periodic evaluation of the adequacy of the allowance is based on 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 and current economic conditions, as such factors may be applicable. Specific valuation allowances are established to absorb losses on loans for which full collectability cannot be reasonably assured.

Our evaluation of the adequacy of the allowance for loan losses includes a review of all loans on a quarterly basis. For residential mortgage loans and consumer loans, the primary factors used to determine the adequacy of the allowance are delinquency, collateral value, general economic conditions and, where applicable, individual borrower information that is known to us. For commercial loans, commercial construction loans and commercial mortgage loans, the review includes financial performance of the borrower, payment history, collateral value, general economic conditions and more specific economic conditions affecting specific industries or business activities of the borrowers within the portfolio segments.

The allowance consists of specific and general components and at times, it may include an unallocated component. The specific component relates to impaired loans, which consists of commercial, commercial mortgage, and residential mortgage loans for which it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan agreement. The amount of the general portion of the allowance for loan losses is determined by applying loss factors to the outstanding loans in the portfolio. The amount of the factor applied to the loans is dependent upon the type of loan and management's assessment of the relative risk associated with that loan type. The factors may change from time to time if conditions or events warrant such change.

Management maintains an allowance for loan losses that it considers adequate based on the evaluation process that it performs on a quarterly basis. As part of this process, management considers it appropriate to maintain a portion of the allowance that is based on credit quality trends, loan volume, current economic trends and other uncertainties. This portion of the allowance for loan losses is recorded as a component of the general portion.

At December 31, 2022 and December 31, 2021, we had an allowance for loan losses of $8.9 million and $8.5 million, respectively. Management believes that the allowance for loan losses at December 31, 2022 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 loan 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 loan 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 loan 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 loan 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 loan losses may adversely affect our financial condition and results of operations.

Deposits

Total deposits increased $6.6 million, or 1.0%, to $667.5 million at December 31, 2022 from the December 31, 2021 balance of $660.9 million. Non-interest bearing demand deposits increased $5.2 million, or 4.6%, to $119.0 million, at December 31, 2022, compared to $113.8 million at December 31, 2021. Interest-bearing checking accounts decreased $6.2 million, or 3.3%, to $184.1 million, at December 31, 2022, compared to $190.3 million at December 31, 2021. Savings deposits, including money market accounts, increased $5.2 million, or 2.4%, to $217.5 million at December 31, 2022, from the balance of $212.3 million at December 31, 2021. Total certificates of deposit increased $2.4 million, or 1.7%, to $146.8 million, at December 31, 2022 from the December 31, 2021 balance of $144.4 million.

Short-Term Borrowings

Short-term borrowings amounted to $101.8 million and $37.5 million at December 31, 2022 and 2021, respectively.

The Bank had an outstanding balance of FHLB overnight borrowings of $54.1 million and $0 as of December 31, 2022 and 2021, respectively. During 2022, the Bank increased its reliance on overnight borrowings to fund loan originations and investment purchases.

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 million fixed rate advance with a three-month maturity, and upon its maturity, we secured an additional $10 million three-month fixed rate advance. We intend to continue securing a $10 million three-month fixed rate advance until the maturity of our cash flow hedge on February 28, 2030. Please refer to Notem 23 – Derivatives and Hedging Activities for further information about our cash flow hedge.

We also have borrowing capacity with the Federal Discount Window of $1,996,000 and $2,028,000 at December 31, 2022 and 2021, respectively. We did not have an outstanding balance of the Federal Discount Window during 2022 or 2021.

Securities sold under agreements to repurchase totaled $37.7 million at December 31, 2022, an increase of $10.2 million, or 37.1%, from $27.5 million at December 31, 2021.

Long-Term Borrowings

Long-term borrowings with the FHLB consisted of $55.0 million at December 31, 2022 and $65.0 million at December 31, 2021. The $55.0 million outstanding at December 31, 2022 consists of fixed maturity advances with maturity dates ranging from September 5, 2023 to February 7, 2028. Interest rates on these advances range from 2.49% to 3.65%, with a weighted-average rate of 2.99%. Please refer to Note 11 – Long-Term Borrowings for our maximum borrowing capacity with FHLB.

We have also secured a $10.0 million revolving line of credit with a maturity date of September 14, 2023 with another financial institution. At December 31, 2022, we were in compliance with these covenants and had yet to borrow on the line of credit.

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 326,466 shares of common stock at December 31, 2022. We retired 1,250 shares of trust-preferred securities during 2022. The Company also converted 385,762 shares of trust-preferred securities to common shares during 2022. Please refer to Note 12 – Subordinated Debt for further information.

Stockholders' Equity

Stockholders' equity at December 31, 2022 was $81.9 million, an increase of $5.7 million, or 7.4%, from the December 31, 2021 balance of $76.2 million. The increase was primarily the result of $10.1 million in earnings and $3.3 million for the conversion of trust-preferred securities to common shares, offset by the payment of $3.7 million of dividends on common stock and the $3.6 million impact of accumulated other comprehensive (loss) income.

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 and advances from the FHLB.

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, 2022, 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, 2022, 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, 2022 totaled $174.1 million. This consisted of $24.3 million in commitments to fund commercial business, commercial real estate, residential real estate and commercial and residential construction loans, $131.5 million under lines of credit, including $14.9 million in home equity lines of credit, and $18.3 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, 2022.

	Due by December 31, 2023	Due after December 31, 2023 through December 31, 2025	Due after December 31, 2025 through December 31, 2027	Due after December 31, 2027	Total
			(In Thousands)		
Time deposits	$ 84,906	$ 58,288	$ 3,637	$ -	$ 146,831
Short-term borrowings	101,767	-	-	-	101,767
Long-term borrowings	10,000	35,000	-	10,000	55,000
Junior subordinated debentures	-	-	-	2,861	2,861
Operating leases	4	-	-	-	4
Total	$ 196,677	$ 93,288	$ 3,637	$ 12,861	$ 306,463

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, 2022 totaled $81.9 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.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due, unless the credit is well secured and in the process of collection, or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. 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 loan losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income, 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 Board of Directors is informed monthly of the status of all loans delinquent more than 15 days.

During the year ended December 31, 2022, we charged off one loan totaling $10,000 and received $18,000 in recoveries on previously charged-off loans. At December 31, 2022, we had six loans with unpaid balances of $427,000 that were delinquent 30 days or more, including one non-accruing loan of $309,000.

During the year ended December 31, 2019, we initiated formal foreclosure proceedings on a $309,000 commercial loan. As of December 31, 2022, this property has not yet been transferred into foreclosed assets due to governmental delays experienced during the COVID-19 pandemic.

Restructured Loans

Under GAAP, American Bank is required to classify certain loan modifications or restructurings as troubled debt restructurings ("TDRs"). In general, the modification or restructuring of a debt constitutes a TDR if American Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that we would not otherwise consider. Debt restructurings or loan modifications for a borrower do not necessarily always constitute TDRs and TDRs do not necessarily result in non-accrual loans. During 2022, ten loans were modified for one commercial relationship with a balance of $3.0 million, all of which were previously classified as TDRs. Additionally, one consumer loan was modified with a balance of $21,000, which was not previously classified as a TDR. At December 31, 2022, those loans classified as TDRs totaled $3,684,000, which included one non-accrual loan not performing according to restructured terms.

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 loss for the amount of the portion of the asset classified as "Loss." All or a portion of general loan 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 loan 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, 2022, the aggregate amount of our assets classified as "Special Mention" and "Substandard" were $510,000 and $3.7 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 15, 2023, 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 6,331,689 shares outstanding.

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

Year Ended December 31, 2022	High	Low	Cash Dividends Declared
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

Year Ended December 31, 2021	High	Low	Cash Dividends Declared
Fourth Quarter	$ 16.25	$ 15.61	$ 0.12
Third Quarter	16.88	15.26	0.12
Second Quarter	16.50	12.51	0.20
First Quarter	14.00	11.38	0.12

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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 subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021; 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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.

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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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

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.

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
March 16, 2023

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CONSOLIDATED BALANCE SHEETS

	December 31, 2022	December 31, 2021
	(In Thousands, Except Share and Per Share Data)	
ASSETS		
Cash and due from banks	$ 2,879	$ 1,482
Interest-bearing deposits with other banks	13,586	117,611
Total cash and cash equivalents	16,465	119,093
Equity securities	774	686
Investment securities available-for-sale, at fair value	200,442	77,841
Investment securities held-to-maturity	-	200
Loans held for sale	-	906
Loans receivable, net of allowance for loan losses (2022 – $8,911; 2021 – $8,515)	653,686	606,572
Restricted investment in bank stock	6,607	4,501
Bank-owned life insurance	22,857	21,565
Premises and equipment, net	11,397	11,326
Accrued interest receivable	2,650	1,527
Other assets	12,406	4,933
Total Assets	$ 927,284	$ 849,150
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 118,992	$ 113,788
Interest-bearing	548,485	547,092
Total deposits	667,477	660,880
Short-term borrowings	101,767	37,464
Long-term borrowings	55,000	65,000
Junior subordinated debentures	2,861	6,199
Accrued interest payable	480	304
Other liabilities	17,791	3,053
Total Liabilities	845,376	772,900
STOCKHOLDERS' EQUITY		
Common stock, par value $0.10 per share; authorized 15,000,000 shares in 2022 and 2021; issued 7,632,555 in 2022 and 2021; outstanding 6,330,915 in 2022 and 5,964,910 in 2021	763	763
Paid-in capital	35,577	35,677
Treasury stock, at cost, 1,301,640 shares in 2022 and 1,667,645 shares in 2021	(11,750)	(14,872)
Allocated but unvested shares in SERP, at cost, 28,748 shares in 2022 and 27,939 shares in 2021	(273)	(254)
Retained earnings	61,070	54,822
Accumulated other comprehensive (loss) income	(3,479)	114
Total Stockholders' Equity	81,908	76,250
Total Liabilities and Stockholders' Equity	$ 927,284	$ 849,150

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2022	**2021**
	(In Thousands, Except Per Share Data)	
INTEREST INCOME		
Loans receivable, including fees	$ 26,753	$ 26,400
Investment securities	3,034	629
Restricted investment in bank stock	267	252
Interest-bearing deposits with other banks	203	93
Total interest income	30,257	27,374
INTEREST EXPENSE		
Deposits	3,803	3,114
Short-term borrowings	769	176
Long-term borrowings	1,887	1,908
Junior subordinated debentures	211	536
Total interest expense	6,670	5,734
Net interest income	23,587	21,640
PROVISION FOR LOAN LOSSES	388	521
Net interest income after provision for loan losses	23,199	21,119
NON-INTEREST INCOME		
Service fees	114	79
Loan swap fees	31	466
Net gains on sales of residential mortgage loans	135	474
Net gains on equity securities	112	196
Earnings on bank-owned life insurance	492	404
Other	859	816
Total non-interest income	1,743	2,435
NON-INTEREST EXPENSE		
Salaries and employee benefits	6,791	6,309
Occupancy, net	693	689
Equipment and data processing	927	859
Hosted services	348	271
Professional services	404	355
Pennsylvania bank shares tax	717	694
Federal deposit insurance	257	202
Other	2,112	1,464
Total non-interest expense	12,249	10,843
Income before income tax expense	12,693	12,711
INCOME TAX EXPENSE	2,578	2,608
Net income	$ 10,115	$ 10,103
PER SHARE DATA		
Net earnings per common share:		
Basic	$ 1.63	$ 1.82
Diluted	$ 1.57	$ 1.68
Dividends paid per share	$ 0.60	$ 0.56

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2022	**2021**
	(In Thousands)	
Net income	$ 10,115	$ 10,103
Other comprehensive loss:		
Investment securities available-for-sale:		
Unrealized holding losses on available-for-sale investment securities	(5,961)	(684)
Tax effect	1,251	144
Net of tax amount	(4,710)	(540)
Derivatives and hedging activities adjustments:		
Changes in unrealized gain on derivatives	1,437	447
Tax effect	(301)	(94)
Reclassification adjustment for (gains) losses on derivatives included in net income	(24)	95
Tax effect	5	(20)
Net of tax amount	1,117	428
Other comprehensive loss, net of tax	(3,593)	(112)
Comprehensive income	$ 6,522	$ 9,991

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2022 and 2021

(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, 2020	5,574,981	$ 763	$ 35,754	$ (18,332)	$ 47,953	$ 226	$ 66,364
Net income	-	-	-	-	10,103	-	10,103
Other comprehensive loss	-	-	-	-	-	(112)	(112)
Compensation exp on stock options	-	-	99	-	-	-	99
Purchase of shares into Treasury	(44,071)	-	-	(678)	-	-	(678)
Sale of SERP shares	-	-	-	19	-	-	19
Repurchase of trust-preferred shares	-	-	-	-	(70)	-	(70)
Conversion of trust-preferred shares to common shares	434,000	-	(176)	3,865	-	-	3,689
Dividends declared – $0.56 per share	-	-	-	-	(3,164)	-	(3,164)
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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2022	2021
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,115	$ 10,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	388	521
Provision for depreciation	441	422
Proceeds from sales of residential mortgage loans	8,022	29,076
Net gains on sales of residential mortgage loans	(135)	(474)
Loans originated for sale	(6,981)	(27,847)
Net amortization of deferred loan costs	(232)	(2,716)
Net (accretion) amortization of investment securities premiums and discounts	(376)	244
Net gain on sale of equity security	(18)	-
Net gains on equity securities	(94)	(196)
Compensation expense on stock options	72	99
Earnings on bank-owned life insurance	(492)	(404)
Decrease (increase) in deferred taxes	41	(129)
(Increase) decrease in other assets and accrued interest receivable	(7,648)	447
Increase (decrease) in other liabilities and accrued interest payable	16,138	(78)
Net cash provided by operating activities	19,241	9,068
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale investment securities:		
Purchases	(191,895)	(52,212)
Maturities, calls and principal repayments	63,709	28,745
Proceeds from maturity of held-to-maturity investment securities	200	-
Proceeds from sale of equity security	24	-
Purchase of bank-owned life insurance	(800)	(3,400)
Net increase in loans receivable	(47,270)	(17,428)
Purchases of restricted investment in bank stock	(6,812)	(10)
Redemption of restricted investment in bank stock	4,706	-
Purchases of premises and equipment	(512)	(187)
Net cash used in investing activities	(178,650)	(44,492)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand and savings deposits	4,178	108,484
Net increase in time deposits	2,419	1,455
Net increase (decrease) in short-term borrowings	64,303	(396)
Repayment of long-term borrowings	(10,000)	-
Purchase of shares into Treasury	(392)	(678)
Repurchase of trust-preferred shares	-	(70)
Retirement of trust-preferred shares	(9)	-
Sale of SERP shares	8	19
Exercise of stock options	35	-
Repayment of junior subordinated debentures	(3,338)	(3,887)
Conversion of trust-preferred securities to common shares	3,280	3,689
Dividends paid	(3,703)	(3,116)
Net cash provided by financing activities	56,781	105,500
Net (decrease) increase in cash and cash equivalents	(102,628)	70,076
CASH AND CASH EQUIVALENTS – BEGINNING	119,093	49,017
CASH AND CASH EQUIVALENTS – ENDING	$ 16,465	$ 119,093

See 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 and AMBK Services 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, and the purpose of AMBK Services LLC is to pay compensation and benefits for employees of the subsidiary. 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 loan losses, assessment of other-than-temporary impairment of investment securities, valuation of deferred tax assets and liabilities, and the fair value of financial instruments.

Significant Concentrations of Credit Risk

The Bank maintains its principal office 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 real estate loans, the Company does not have any significant concentrations to any one industry or customer except for $69.8 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.

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. Unrealized gains or losses, net of the related deferred tax effect, are included in accumulated other comprehensive income 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 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.

Investment securities classified as held-to-maturity are those investment securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These investment securities are carried at cost adjusted for the amortization of premiums and accretion of discounts, computed by the interest method over the terms of the investment securities.

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, 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. At December 31, 2021, the Bank held $3,325,000 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investment in Bank Stock (Continued)

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 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 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 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.

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 loan 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

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.

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.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

Non-performing Assets

The accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due, unless the credit is well secured and in the process of collection, or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. 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 loan losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income, 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.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, 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, and residential mortgage 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings

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.

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 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 $501,000 and $441,000 as of December 31, 2022 and 2021, respectively. The related expense for this benefit agreement amounted to $60,000 and $58,000 for the years ended December 31, 2022 and 2021, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 estimated useful life of the improvement. The estimated useful lives for calculating depreciation are as follows:

	Years
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.

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 adopted ASU 2016-02, "Leases (Topic 842)", which 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 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 $184,000 and $199,000 are included in other non-interest expense for the years ended December 31, 2022 and 2021, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental Income

The Bank leases space to a tenant at its principal office. Rental income is recorded when earned as a component of non-interest income in the Consolidated Statements of Income. This lease is an operating lease, 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation (Continued)

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 2022 consolidated financial statements. Such reclassifications had no effect on the Company's net income or stockholders' equity.

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, 2022 and 2021 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 $774,000 and $686,000 in equity securities recorded at fair value at December 31, 2022 and 2021.

The following table presents the net gains and losses on equity securities recognized in earnings at December 31, 2022 and 2021, and the portion of unrealized gains and losses for the period that relates to equity securities held at December 31, 2022 and 2021:

(In Thousands)	2022	2021
Net gains recognized on equity securities during the year	$ 112	$ 196
Less gain realized on the sale of equity security during the year	18	-
Unrealized net gains recognized on equity securities held at year end	$ 94	$ 196

NOTE 5 – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of debt securities as of December 31, 2022 and 2021 are summarized as follows:

	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
	$ 206,564	$ 127	$ (6,249)	$ 200,442

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
AVAILABLE-FOR-SALE:				
U.S. treasuries	$ 41,075	$ -	$ (195)	$ 40,880
U.S. government agencies	1,000	1	-	1,001
Mortgage-backed securities in government-sponsored entities	25,846	312	(149)	26,009
Trust-preferred obligations	798	-	(20)	778
Corporate notes in financial institutions	9,008	8	(109)	8,907
Other	275	-	(9)	266
	$ 78,002	$ 321	$ (482)	$ 77,841
HELD-TO-MATURITY:				
Other	$ 200	$ -	$ -	$ 200
	$ 200	$ -	$ -	$ 200

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

There were no sales of investment securities in 2022 and 2021.

Investment securities with a carrying value of $92,422,000 and $61,781,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

The amortized cost and fair value of securities as of December 31, 2022, 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.

	Available-for-Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 114,774	$ 113,554
Due after one year through five years	69,628	66,151
Due after five years through ten years	2,647	2,507
Due after ten years	19,515	18,230
Total	$ 206,564	$ 200,442

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

The following table shows gross unrealized losses and fair value on securities, aggregated by category and length of time that individual securities have been in continuous unrealized loss positions, at December 31, 2022 and 2021.

	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	$128,093	$ (1,713)	$ 64,155	$ (4,536)	$192,248	$ (6,249)

	December 31, 2021					
	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	$ 36,856	$ (185)	$ 2,024	$ (10)	$ 38,880	$ (195)
Mortgage-backed securities in government-sponsored entities	10,138	(148)	698	(1)	10,836	$ (149)
Trust-preferred obligations	-	-	778	(20)	778	(20)
Corporate notes in financial institutions	4,913	(87)	985	(22)	5,898	(109)
Other	241	(9)	-	-	241	(9)
Total investment securities available-for-sale	$ 52,148	$ (429)	$ 4,485	$ (53)	$ 56,633	$ (482)

Investment securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent 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, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the company does not intend to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings and recorded as a realized loss in net gains on sales of investment securities on the Consolidated Statements of Income.

There were 76 securities in an unrealized loss position as of December 31, 2022. Management does not believe any of their securities in an unrealized loss position represent an other-than-temporary impairment, as these unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities. There was no other-than-temporary impairment recorded as a component of other comprehensive (loss) income during the years ended December 31, 2022 and 2021.

NOTE 6 – LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2022 and 2021 is as follows:

	2022	2021
	(In Thousands)	
Commercial, industrial and other loans	$ 81,375	$ 75,852
Commercial mortgage	502,051	468,675
Commercial construction	43,494	45,882
Residential mortgage	24,385	14,652
Consumer	11,064	10,016
Total gross loans	662,369	615,077
Net deferred loan costs	228	10
Allowance for loan losses	(8,911)	(8,515)
Loans receivable, net	$ 653,686	$ 606,572

As a result of the economic impact of the novel coronavirus disease ("COVID-19"), the Coronavirus Aid, Relief and the Economic Security Act ("CARES Act") was enacted in the United States on March 27, 2020. The Company was approved by the U.S. Small Business Administration ("SBA") to fund loans under the SBA's Paycheck Protection Program ("PPP") created as part of the CARES Act. The PPP provided loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers to maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2022 and 2021, the Company had outstanding principal balances of $0 and $4.7 million, respectively. The PPP loans were fully guaranteed by the SBA and were eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA were repaid to the Company. PPP loans are included in the commercial, industrial and other loans portfolio.

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately $0 and $1.9 million in fees associated with the processing of these loans during the years 2022 and 2021. Upon funding of the loan, these fees were deferred and were amortized over the life of the loan as an adjustment to yield in accordance with Accounting Standard Codification ("ASC") 310-20, "Receivables – Nonrefundable Fees and Other Costs." Approximately $159,000 and $2.7 million was amortized into interest income as a result of normal amortization and forgiveness of PPP loans during the years ended December 31, 2022 and 2021.

The Company's primary business activity is with customers located within its local trade area where commercial, residential and personal loans are granted. Although the Company has a diversified loan portfolio at December 31, 2022 and 2021, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, industrial and other ("commercial"), commercial mortgage, commercial construction, residential mortgage and consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a 48-month

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans.

The following qualitative factors are analyzed for each portfolio segment:

- Changes in trends in past due, downgrades and charge-offs
- Changes in economic and industry factors
- Changes in loan concentrations
- Changes in management and lender expertise
- Changes in volume, terms and policy exceptions

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Loans by Segments

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheets date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio at December 31, 2022. The following table presents, by portfolio segment, the allowance for loan losses and recorded investment in loans individually and collectively evaluated for impairment as of December 31, 2022 and 2021:

Allowance for Loan Losses and Loans Receivable as of December 31, 2022

(In Thousands)	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

Allowance for Loan Losses and Loans Receivable as of December 31, 2021

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Allowance for loan losses:						
Ending balance	$ 954	$ 6,490	$ 833	$ 129	$ 109	$ 8,515
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 954	$ 6,490	$ 833	$ 129	$ 109	$ 8,515
Loans receivable:						
Ending balance	$ 75,852	$ 468,675	$ 45,882	$ 14,652	$ 10,016	$ 615,077
Ending balance: individually evaluated for impairment	$ 491	$ 4,779	$ -	$ 32	$ -	$ 5,302
Ending balance: collectively evaluated for impairment	$ 75,361	$ 463,896	$ 45,882	$ 14,620	$ 10,016	$ 609,775

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information

The following tables represent commercial, commercial mortgage and commercial construction credit exposures by internally assigned grades as of December 31, 2022 and 2021 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.

	2022			
(In Thousands)	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	$ 81,375	$ 502,051	$ 43,494	$ 626,920

	2021			
(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Total
Pass	$ 75,334	$ 463,695	$ 45,882	$ 584,911
Special Mention	27	587	-	614
Substandard	491	4,393	-	4,884
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 75,852	$ 468,675	$ 45,882	$ 590,409

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information (Continued)

The following tables present performing and non-performing residential mortgage and consumer loans based on payment activity as of December 31, 2022 and 2021, respectively. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are generally considered to be non-performing when they become 120 days past due or are placed on non-accrual status.

	2022		
(In Thousands)	Residential Mortgage	Consumer	Total
Performing	$ 24,385	$ 11,064	$ 35,449
Non-performing	-	-	-
Total	$ 24,385	$ 11,064	$ 35,449

	2021		
(In Thousands)	Residential Mortgage	Consumer	Total
Performing	$ 14,620	$ 10,016	$ 24,636
Non-performing	32	-	32
Total	$ 14,652	$ 10,016	$ 24,668

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Age Analysis of Past-Due Loans Receivable by Class

The following table includes an aging analysis of past-due loans receivable as well as the loans on non-accrual by portfolio segment as of December 31, 2022 and 2021.

	2022							
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Total Current	Total Loans	90 Days and Accruing	Total Non-accrual
Commercial	$ -	$ -	$ 309	$ 309	$ 81,066	$ 81,375	$ -	$ 309
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	5	-
Total	$ 113	$ -	$ 314	$ 427	$ 661,942	$ 662,369	$ 5	$ 309

	2021							
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Total Current	Total Loans	90 Days and Accruing	Total Non-accrual
Commercial	$ -	$ -	$ 309	$ 309	$ 75,543	$ 75,852	$ -	$ 309
Commercial mortgage	-	-	-	-	468,675	468,675	-	-
Commercial construction	362	-	-	362	45,520	45,882	-	-
Residential mortgage	-	-	32	32	14,620	14,652	-	32
Consumer	-	9	-	9	10,007	10,016	-	-
Total	$ 362	$ 9	$ 341	$ 712	$ 614,365	$ 615,077	$ -	$ 341

Impaired Loans

Management considers all loans 120 days or more past due to be impaired. Additionally, any loan modified in a TDR is also impaired. Loans which are less than 120 days past due are considered impaired when management is aware of circumstances that may affect the collectability of the loan. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Impaired Loans (Continued)

The following table includes the recorded investment and unpaid principal balances for impaired loans as of December 31, 2022 and 2021 with their associated allowance for loan losses amount, if applicable.

	2022				
(In Thousands)	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

	2021				
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial mortgage	-	-	-	-	-
Residential mortgage	-	-	-	-	-
With no related allowance recorded:					
Commercial	$ 491	$ 642	$ -	$ 530	$ 11
Commercial mortgage	4,779	4,779	-	4,967	219
Residential mortgage	32	49	-	58	8
Total:					
Commercial	$ 491	$ 642	$ -	$ 530	$ 11
Commercial mortgage	4,779	4,779	-	4,967	219
Residential mortgage	32	49	-	58	8

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Impaired Loans (Continued)

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring ("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 recorded investment of TDRs at the dates indicated:

(In Thousands)	December 31, 2022	December 31, 2021
Non-accrual TDRs	$ 309	$ 341
Accruing TDRs	3,375	4,551
Total TDRs	$ 3,684	$ 4,892

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

During the year ended December 31, 2022, the Company had 11 loan modifications that constituted a TDR. During the year ended December 31, 2021, the Company had 12 loan modifications that constituted a TDR. These loan modifications during the year ended December 31, 2022 and 2021 are as follows:

	2022		
(In Thousands, except number of contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
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.

	2021		
(In Thousands, except number of contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial mortgage	12	$ 4,203	$ 4,203

One commercial mortgage relationship consisting of 12 loans was modified twice in 2021. Both modifications in 2021 extended the maturity date of each loan for six months.

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Impaired Loans (Continued)

The Company did not have any reserves allocated to TDRs within the allowance for loan losses at December 31, 2022 and 2021. Additionally, the Company had no commitments to lend additional funds to borrowers whose loans have been modified in a TDR.

During the year ended December 31, 2019, the Company initiated formal foreclosure proceedings on a $309,000 commercial loan. As of December 31, 2022, this property has not yet been transferred into foreclosed assets due to governmental delays experienced during the COVID-19 pandemic.

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning COVID-19 outbreak declared by the President on March 13, 2020 under the National Emergencies Act terminates, or (B) December 31, 2020.

On December 27, 2020, the President signed into law the Consolidated Appropriations Act, 2021, which amended the CARES Act Section 4013. The amendment extends the applicable period for which a financial institution is able to (A) suspend the requirements under GAAP for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR, and (B) any determination of a loan modified as a result of the effects of the COVID-19 pandemic as being a TDR, including impairment for accounting purposes. The amended end date for the relief related to a financial institution electing to suspend TDR and loan impairment accounting for qualifying modifications was extended from the earlier of December 31, 2020, or 60 days after the national emergency concerning COVID-19 declared by the President terminates to the earlier of January 1, 2022, or 60 days after the national emergency concerning COVID-19 declared by the President terminates.

On April 7, 2020, federal banking regulators issued a revised interagency statement that included guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extension of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification is implemented.

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal banking regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, extension of repayment terms, or other delays in payment that are insignificant.

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

COVID-19 Loan Forbearance Programs (Continued)

During 2021, eight of the Company's borrowers requested loan payment deferrals or payments of interest only on loans totaling $13.7 million. In accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, these short-term deferrals are not considered TDRs. As of December 31, 2021, there were two outstanding loans that remained on deferral totaling $5,428,000. As of December 31, 2022, there were no loans outstanding that remained on deferral.

NOTE 7 – ALLOWANCE FOR LOAN LOSSES

The following table presents by portfolio segment, changes in the allowance for loan losses for the years ended December 31, 2022 and 2021:

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
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	$ 1,050	$ 6,783	$ 769	$ 195	$ 114	$ 8,911

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Beginning balance, December 31, 2020	$ 753	$ 6,100	$ 836	$ 194	$ 105	$ 7,988
Charge-offs	-	-	-	-	-	-
Recoveries	5	-	-	-	1	6
Provision	196	390	(3)	(65)	3	521
Ending balance, December 31, 2021	$ 954	$ 6,490	$ 833	$ 129	$ 109	$ 8,515

NOTE 8 – PREMISES AND EQUIPMENT

The components of premises and equipment at December 31, 2022 and 2021, are as follows:

	2022	2021
	(In Thousands)	
Land	$ 2,103	$ 2,103
Building	9,038	9,038
Leasehold improvements	1,245	1,227
Land improvements	789	789
Furniture, fixtures and equipment and automobiles	1,486	1,478
Computer equipment	650	589
Fixed assets in process	258	25
	15,569	15,249
Accumulated depreciation	(4,172)	(3,923)
Total	$ 11,397	$ 11,326

Depreciation expense for the years ended December 31, 2022 and 2021 was $441,000 and $422,000, respectively.

NOTE 9 – DEPOSITS

The components of deposits at December 31, 2022 and 2021 are as follows:

	2022	2021
	(In Thousands)	
Demand, non-interest bearing	$ 118,992	$ 113,788
Demand, interest-bearing	184,152	190,338
Savings	217,502	212,342
Time deposits less than $250,000	120,035	118,056
Time deposits, $250,000 or greater	26,796	26,356
Total	$ 667,477	$ 660,880

At December 31, 2022, the scheduled maturities of time deposits are as follows (in thousands):

2023	$ 84,906
2024	53,385
2025	4,903
2026	1,253
2027	2,384
Total	$ 146,831

NOTE 10 – SHORT-TERM BORROWINGS

Short-term borrowings include advances with the FHLB with terms of less than twelve months, the Federal Discount Window, and securities sold under agreements to repurchase. Short-term borrowings amounted to $101,767,000 and $37,464,000 at December 31, 2022 and 2021, 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 $54,100,000 and $0 as of December 31, 2022 and 2021, 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 million fixed rate advance with a three-month maturity, and upon its maturity, the Bank secured an additional $10 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, 2022	2021
	(In Thousands)	
Ending balance	$ 64,100	$ 10,000
Average balance during the year	23,676	10,000
Weighted-average interest rate during the year	3.07%	0.32%
Maximum month-end balance during year	67,500	10,000
Weighted-average interest rate at end of year	4.48%	0.27%

The Bank also had borrowing capacity with the Federal Discount Window of $1,996,000 and $2,028,000 at December 31, 2022 and 2021, respectively. The Bank did not have an outstanding balance of the Federal Discount Window as of December 31, 2022 and 2021.

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.

NOTE 10 – SHORT-TERM BORROWINGS (CONTINUED)

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

	Years Ended December 31, 2022	Years Ended December 31, 2021
	(In Thousands)	
Ending balance	$ 37,667	$ 27,464
Average balance during the year	30,971	23,823
Weighted-average interest rate during the year	0.35%	0.20%
Maximum month-end balance during year	44,374	32,438
Weighted-average interest rate at end of year	0.98%	0.20%

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 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, 2022 and 2021.

(In Thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledge	Net Amount
December 31, 2022						
Repurchase agreements	$ 37,667	$ -	$ 37,667	$ (37,667)	$ -	$ -
December 31, 2021						
Repurchase agreements	$ 27,464	$ -	$ 27,464	$ (27,464)	$ -	$ -

NOTE 10 – SHORT-TERM BORROWINGS (CONTINUED)

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	
	At December 31, 2022	At December 31, 2021
	Remaining Contractual Maturity of the Agreements	
	Overnight and Continuous	Overnight and Continuous
	(In Thousands)	
Repurchase agreements:		
U.S. treasuries	$ 40,215	$ 15,379
Mortgage-backed securities in government-sponsored entities	11,303	16,727
Total collateral carrying value	$ 51,518	$ 32,106
Total short-term borrowed funds	$ 37,667	$ 27,464

NOTE 11 – LONG-TERM BORROWINGS

Long-term borrowings are comprised of advances from the FHLB and a revolving line of credit with another financial institution.

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 $353,098,000. 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, 2022, the Bank was in compliance with these requirements.

Long-term borrowings with the FHLB amounted to $55.0 million and $65.0 million at December 31, 2022 and 2021, respectively. The $55.0 million outstanding at December 31, 2022 consists of fixed maturity advances with maturity dates ranging from September 5, 2023 to February 7, 2028. Interest rates on these advances range from 2.49% to 3.65%, with a weighted-average interest rate of 2.99%.

Scheduled FHLB repayments of principal at December 31, 2022 are as follows:

	Balance	Weighted-Average Rate
	(In Thousands)	
2023	$ 10,000	2.49%
2024	20,000	2.58%
2025	15,000	3.65%
2028	10,000	3.33%
Total	$ 55,000	2.99%

NOTE 11 – LONG-TERM BORROWINGS (CONTINUED)

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. 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, 2022, the Company was in compliance with these covenants and had yet to borrow on the line of credit.

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 326,466 shares of common stock at December 31, 2022. 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.

The Company retired 1,250 shares of trust-preferred securities, and also converted 385,762 shares of trust-preferred securities to common shares during 2022.

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY

The Bank leases the premises for its disaster recovery site under an operating lease through February 28, 2023.

The Bank also leases the premises for a loan production office under a seven year operating lease through January 31, 2023. The Bank is responsible for its direct or proportionate share of real estate taxes, insurance, utilities, and maintenance and repairs. The Bank has the option to extend the lease for two additional five year periods.

The Bank also leases a postage meter under a five year non-cancelable finance lease through March 31, 2023. At the end of the lease term, the Bank plans to renew the lease for an additional one year term.

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY (CONTINUED)

The following table represents the Company's ROU assets and lease liabilities as of December 31, 2022 and 2021.

(In Thousands)	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

(In Thousands)	2021		2021
Lease Right-of-Use Assets		**Lease Liabilities**	
Operating lease right-of-use assets	$ 44	Operating lease liabilities	$ 45
Finance lease right-of-use assets	3	Finance lease liabilities	3
Total lease right-of use assets	$ 47	Total lease liabilities	$ 48

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, 2022, the Bank's weighted-average remaining lease term was 0.1 years for its operating lease and 0.3 years for its finance lease. At December 31, 2022, the Bank's weighted-average discount rate was 2.90% for its operating and finance leases.

The following table represents lease costs and other lease information for the year ended December 31, 2022 and 2021:

(In Thousands)	2022	2021
Operating lease cost	$ 54	$ 54
Finance lease cost		
Interest on lease liabilities	-	-
Amortization of right-of-use asset	3	3
Sublease income	(168)	(165)
Net lease income	$ (111)	$ (108)

Future minimum lease payments for its operating lease with an initial term of one year or more as of December 31, 2022 were as follows:

(In Thousands)	Operating Lease
2023	$ 4
Total future minimum lease payments	4
Amounts representing interest	-
Present value of net future minimum lease payments	$ 4

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY (CONTINUED)

The Bank is the landlord for the tenant renting space located at its principal office under a five year operating lease agreement through February 28, 2023. 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. Rental income was $168,000 and $165,000 for the years ended December 31, 2022 and 2021, 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, 2022, 214,162 shares were available for repurchase under the program.

During 2022, the Company repurchased 22,767 shares into treasury at a weighted-average cost of $16.02 per share. During 2021, the Company repurchased 44,071 shares into treasury at a weighted-average cost of $14.94 per share.

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, 2022 and 2021:

	2022	2021
	(In Thousands, Except Per Share Data)	
Numerator, basic earnings per share, net income	$ 10,115	$ 10,103
Interest paid on junior subordinated debentures, net of tax effect	167	423
Numerator, diluted earnings per share, net income	$ 10,282	$ 10,526
Denominators:		
Average basic shares outstanding	6,188	5,538
Average dilutive mandatory redeemable debentures effect	327	714
Average dilutive stock option effect	38	8
Average diluted shares outstanding	6,553	6,260
Net income per common share:		
Basic	$ 1.63	$ 1.82
Diluted	$ 1.57	$ 1.68

Options to purchase 182,000 shares of common stock outstanding at December 31, 2022 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 185,000 shares of common stock outstanding at December 31, 2021 with exercise prices of $11.70 – $12.99 per share that were not included in the computation of dilutive earnings per share because to do so would be anti-dilutive.

At December 31, 2022 and 2021, 39,363 shares and 38,554 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 $139,000 and $132,000 for the years ended December 31, 2022 and 2021, 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, 2022, 5,000 options were outstanding under the Plan, and stock options will no longer be granted under this Plan.

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, 2022, 177,000 options were outstanding under the 2018 Plan, all of which were ISOs. Options available for grant at December 31, 2022 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, 2022	
	Options	**Weighted-Average Exercise Price**
Outstanding at the beginning of the year	185,000	$ 12.41
Granted	-	-
Exercised	3,000	11.80
Forfeited	-	-
Outstanding at the end of the year	182,000	$ 12.42
Exercisable at December 31	86,500	$ 12.06

At December 31, 2022, the aggregate intrinsic value of total options outstanding was $1,003,000. At December 31, 2022, the aggregate intrinsic value of options exercisable was $508,000. The weighted-average remaining contractual life of total options outstanding was 7.0 years.

NOTE 16 – EMPLOYEE BENEFITS (CONTINUED)

No options were granted for the year ended December 31, 2022. The fair value of the options granted for the year ended December 31, 2021 was calculated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Exercise Price	Dividend Yield	Expected Volatility	Expected Life (Years)	Risk Free Interest Rate	Value Black Scholes
Employee stock options						
2021	$ 12.99	3.40%	15.70%	7.5	1.31%	$ 1.13

For the years December 31, 2022 and 2021, stock option compensation expense of $72,000 and $99,000, respectively, was recognized in connection with the stock option plans. A tax benefit of $15,000 and $21,000 was recognized relative to stock options during the years ended December 31, 2022 and 2021, respectively. At December 31, 2022, future compensation expense related to non-vested stock option grants aggregated to $59,000 and will be recognized over the next five 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 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 2022, the plan purchased 400 shares of stock. The Company allocated 2,500 shares of stock to eligible employees, leaving 129 shares of stock committed to be released at December 31, 2022. 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.

During 2021, the plan purchased 1,485 shares of stock. The Company allocated 2,500 shares of stock to eligible employees, leaving 445 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, 2021 was $7,000.

At December 31, 2021, the ESOP trust owned a total of 42,344 shares of Company common stock. At that date, 41,899 shares had been allocated to employees.

NOTE 16 – EMPLOYEE BENEFITS (CONTINUED)

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, 2022 and 2021, the liability for the SERP was $748,000 and $626,000, respectively. During the year ended December 31, 2022 and 2021, the amount charged to SERP expense was $122,000 and $146,000, respectively. 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. During 2021, the SERP purchased 3,892 shares of the Company's common stock for allocation to the participants, sold 2,100 shares of the Company's common stock to fund participant distributions, and held 38,554 shares for allocation to participants on that date.

NOTE 17 – INCOME TAXES

The provision for federal income taxes for the years ended December 31, 2022 and 2021 consisted of the following:

	2022	2021
	(In Thousands)	
Current	$ 2,537	$ 2,737
Deferred	41	(129)
Total income tax expense	$ 2,578	$ 2,608

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

	2022		2021	
(Dollars in Thousands)	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 2,665	21.0%	$ 2,669	21.0%
Effect of tax-exempt income	(7)	(0.1)	(6)	(0.1)
Bank-owned life insurance income	(103)	(0.8)	(85)	(0.7)
Other, net	23	0.2	30	0.3
Income tax provision and effective rate	$ 2,578	20.3%	$ 2,608	20.5%

NOTE 17 – INCOME TAXES (CONTINUED)

At December 31, 2022 and 2021, the significant components of deferred tax assets and liabilities are as follows:

	2022	2021
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,871	$ 1,788
Deferred compensation	148	123
Stock option expense	5	5
Impairment losses on investment securities and equities	11	12
Net unrealized loss on investment securities	1,285	34
Other	162	166
Total gross deferred tax assets	3,482	2,128
Deferred tax liabilities:		
Net unrealized gains on equity securities	(95)	(75)
Premises and equipment	(76)	(37)
Net unrealized gain on derivatives	(361)	(64)
Loan origination costs	(238)	(235)
Total gross deferred tax liabilities	(770)	(411)
Net deferred tax assets	$ 2,712	$ 1,717

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, 2022 and 2021. 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 2019 have been closed for purposes of examination by the Internal Revenue Service. The Company's state tax returns for taxable years through 2018 have been closed for purposes of examination by the Pennsylvania Department of Revenue. The Company's state tax returns for taxable years through 2018 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:

	2022	2021
	(In Thousands)	
Balance at January 1	$ 3,688	$ 2,455
Additions	-	3,785
Deductions	(1,881)	(2,552)
Balance at December 31	$ 1,807	$ 3,688

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 2022 and 2021 presented an off-balance sheet risk to the extent of undisbursed funds in the amounts of $2,161,000 and $210,000, respectively, on the above loans.

Deposits of related parties totaled $9,265,000 and $8,883,000 at December 31, 2022 and 2021, respectively.

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, 2022 and 2021 is as follows:

	2022	2021
	(In Thousands)	
Commitments to extend credit	$ 24,303	$ 31,850
Unfunded commitments under lines of credit	131,555	106,486
Outstanding letters of credit	18,288	13,617

Currently, the Bank sells certain residential mortgages to the secondary market. There were $0 and $906,000 in outstanding commitments to sell such loans at December 31, 2022 and 2021, 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

NOTE 19 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

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 December 31, 2022, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2022 and 2021, 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.

NOTE 20 – REGULATORY MATTERS (CONTINUED)

The Bank's and Company's actual capital amounts and ratios at December 31, 2022 and 2021 are presented below:

(Dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
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	12.80%				
Tier 1 capital (to risk-weighted assets)						
Bank	87,409	11.47%	45,727	6.00%	60,970	8.00%
Company	88,161	11.60%				
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	11.24%				
As of December 31, 2021:						
Total capital (to risk-weighted assets)						
Bank	$ 89,732	13.36%	$ 53,736	8.00%	$ 67,169	10.00%
Company	90,741	13.48%				
Tier 1 capital (to risk-weighted assets)						
Bank	81,333	12.11%	40,302	6.00%	53,736	8.00%
Company	82,200	12.21%				
Tier 1 capital (to average assets)						
Bank	81,333	9.83%	33,102	4.00%	41,378	5.00%
Company	82,200	9.92%				
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	81,333	12.11%	30,226	4.50%	43,660	6.50%
Company	76,136	11.31%				

NOTE 21 – FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal 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.

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.

NOTE 21 – FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2022 and 2021 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, 2022			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
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)

	December 31, 2021			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. treasuries	$ -	$ 40,880	$ -	$ 40,880
U.S. government agencies	-	1,001	-	1,001
Mortgage-backed securities in government-sponsored entities	-	26,009	-	26,009
Trust-preferred obligations	-	778	-	778
Corporate notes in financial institutions	-	7,907	1,000	8,907
Other	241	25	-	266
Equity securities	53	633	-	686
Interest rate swap	-	1,412	-	1,412
Total	$ 294	$ 78,645	$ 1,000	$ 79,939
Liabilities measured on a recurring basis:				
Interest rate swap	-	(1,111)	-	(1,111)
Total	$ -	$ (1,111)	$ -	$ (1,111)

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 derivates 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, 2022 and 2021. 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	
	2022	2021
	(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

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, 2022 and 2021:

	2022				
(In Thousands)	Carrying Amount	Level I	Level II	Level III	Total
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

	2021				
(In Thousands)	Carrying Amount	Level I	Level II	Level III	Total
Financial assets:					
Investment securities held-to-maturity	$ 200	$ 200	$ -	$ -	$ 200
Loans receivable, net	606,572	-	-	606,105	606,105
Financial liabilities:					
Deposits	$ 660,880	$ 516,468	$ -	$ 145,345	$ 661,813
Long-term borrowings	65,000	-	-	66,947	66,947
Junior subordinated debentures	6,199	-	-	6,399	6,399

Cash and Due from Banks, Interest-Bearing Deposits with Other Banks, Loans Held for Sale, 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, 2022 and 2021, 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, 2022 and 2021. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified (from) to interest expense as interest payments are made on the Company's variable-rate liability. The Company recorded $24,000 as a reduction to interest expense during 2022, and the Company recorded an additional $95,000 as an addition to interest expense during 2021. During the next twelve months, the Company estimates that $385,000 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, 2022 and 2021, the Company had interest rate swaps related to this program with an aggregate notional amount of $49.3 million and $49.1 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.

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, 2022 and 2021.

	Derivative Assets					
	As of December 31, 2022			As of December 31, 2021		
(In Thousands)	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	$ 1,719	$ 10,000	Other assets	$ 305
Total derivatives designated as hedging instruments			$ 1,719			$ 305
Derivatives not designated as hedging instruments						
Interest rate products	$ 49,269	Other assets	$ 6,975	$ 49,108	Other assets	$ 1,106
Other contracts	6,753	Other assets	-	6,972	Other assets	1
Total derivatives not designated as hedging instruments			$ 6,975			$ 1,107

	Derivative Liabilities					
	As of December 31, 2022			As of December 31, 2021		
(In Thousands)	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	$ 49,269	Other liabilities	$ 6,976	$ 49,108	Other liabilities	$ 1,111
Other contracts	1,534	Other liabilities	-	1,579	Other liabilities	-
Total derivatives not designated as hedging instruments			$ 6,976			$ 1,111

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, 2022 and 2021.

The Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income

	Amount of Gain Recognized in OCI on Derivative			Amount of Gain (Loss) Reclassified from (to) Accumulated OCI to (from) Income	
(In Thousands)	Year Ended December 31, 2022	Year Ended December 31, 2021	Location of Gain (Loss) Reclassified from (to) Accumulated OCI to (from) Income	Year Ended December 31, 2022	Year Ended December 31, 2021
Derivatives in Cash Flow Hedging Relationships					
Interest rate products	$ 1,437	$ 447	Interest expense	$ 24	$ (95)
Total	$ 1,437	$ 447		$ 24	$ (95)

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, 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. As of December 31, 2021, the Company had derivatives in a net liability position and was required to post a minimum of $144,000 in collateral positions against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2022 and 2021, it could have been required to settle its obligations under the agreement at the termination value. At December 31, 2022, the derivative counterparty had required collateral with the Company in the amount of $8,580,000. At December 31, 2021, the Company had required collateral with its derivative counterparty in the amount of $740,000 and was not holding collateral of its counterparty.

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, 2022 and 2021:

	Accumulated Other Comprehensive (Loss) Income		
(In Thousands)	Unrealized (Losses) Gains on Available-for-Sale Securities	Derivatives	Total
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)
Balance as of December 31, 2020	$ 413	$ (187)	$ 226
Other comprehensive (loss) income before reclassifications	(540)	353	(187)
Amounts reclassified from accumulated other comprehensive income	-	75	75
Period change	(540)	428	(112)
Balance at December 31, 2021	$ (127)	$ 241	$ 114

	Amounts Reclassified from Accumulated Other Comprehensive Income for the Year Ended December 31,		
(In Thousands)	2022	2021	Affected Line Item in the Consolidated Statements of Income
Derivatives and Hedging Activities:			
Interest expense, effective portion	$ 24	$ (95)	Interest expense
Related income tax expense	(5)	20	Income tax expense
Net effect on accumulated other comprehensive (loss) income for the period	19	(75)	
Total reclassifications for the period	$ 19	$ (75)	

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

NOTE 25 – SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years Ended December 31, 2022	2021
	(In Thousands)	
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 6,494	$ 5,716
Income taxes	$ 2,590	$ 2,900
NONCASH ITEMS		
Dividends payable	$ 887	$ 732

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

BALANCE SHEETS

	December 31, 2022	2021
	(In Thousands)	
ASSETS		
Cash and cash equivalents	$ 525	$ 336
Equity securities	774	686
Investments in other securities	-	200
Investment in bank subsidiary	84,016	81,581
Other assets	82	70
Total Assets	$ 85,397	$ 82,873
LIABILITIES AND STOCKHOLDERS' EQUITY		
Corporate obligation for junior subordinated debentures	$ 2,861	$ 6,199
Other liabilities	628	424
Stockholders' equity	81,908	76,250
Total Liabilities and Stockholders' Equity	$ 85,397	$ 82,873

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31, 2022	2021
	(In Thousands)	
INCOME		
Dividend from subsidiary	$ 4,250	$ 4,500
Dividend income on equity securities	2	1
Interest income on other securities	1	1
Net gains on equity securities	112	196
Total income	4,365	4,698
EXPENSES		
Interest expense on corporate obligation for junior subordinated debentures	211	536
Operating expenses	151	154
Total expenses	362	690
Income before income taxes	4,003	4,008
Income tax benefit	(37)	(83)
Income before equity in undistributed earnings of bank subsidiary	4,040	4,091
Equity in undistributed earnings of bank subsidiary	6,075	6,012
Net income	$ 10,115	$ 10,103
Comprehensive income	$ 6,522	$ 9,991

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2022	2021
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,115	$ 10,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Compensation expense on stock options	72	99
Net gains on equity securities	(112)	(196)
Other, net	37	59
Equity in undistributed earnings of Bank subsidiary	(6,075)	(6,012)
Net cash provided by operating activities	4,037	4,053
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of held-to-maturity investment securities	200	-
Proceeds from sale of equity security	24	-
Net cash provided by investing activities	224	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of junior subordinated debentures	(3,300)	(3,843)
Conversion of trust-preferred securities to common shares	3,280	3,689
Dividends paid	(3,703)	(3,116)
Sale of SERP shares	8	19
Exercise of stock options	35	-
Purchase of shares into Treasury	(392)	(678)
Net cash used in financing activities	(4,072)	(3,929)
Increase in cash and cash equivalents	189	124
CASH AND CASH EQUIVALENTS		
Beginning	336	212
Ending	$ 525	$ 336

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 16, 2023, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

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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.

Independent Registered Public Accounting Firm

S.R. Snodgrass, P.C.
2009 Mackenzie Way, Suite 340
Cranberry Township, PA 16066

Special Counsel

Luse Gorman, PC
5335 Wisconsin Avenue, N.W., Suite 780
Washington, D.C. 20015

Transfer Agent

Computershare Inc.
462 South 4th Street
Louisville, KY 40202

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. Jaindl, 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.
General Partner,
Galuchie Partners

Zachary J. Jaindl
Chief Operations Officer,
Jaindl Enterprises, LLC

Michael D. Molewski
Principal, Financial Advisor,
CAPTRUST Financial Partners

Phillip S. Schwartz
President,
Schwartz Heating & Plumbing, Inc.

Donald J. Whiting, Jr.
President and CEO,
Whiting Door Manufacturing Corp.

Officers

Mark W. Jaindl *
Chairman and
Chief Executive Officer

Chris J. Persichetti
President and
Chief Lending Officer

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

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

Toney C. Horst *
Executive Vice President, Treasurer
and Chief Financial Officer

Robert W. Turner
Senior Vice President and
Chief Information Officer

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

*Denotes officer of American Bank Incorporated

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*Celebrating 25 years of serving our community, **AmericanBank** remains committed to providing exceptional service to our customers. We owe our success to the guidance and support of our valued partners. Thank you for being a part of our journey and for helping us make a positive impact on the lives of those we serve.*

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