

**ANNUAL
REPORT**

2022

NMB FINANCIAL CORPORATION

Message to the Shareholders

Special greetings to all of you –

Fellow Shareholders and Friends, 2022 was the most extraordinary year of accomplishments and financial performance for NMB Financial Corporation (“Company”) and its subsidiary New Millennium Bank (“NMB”).

On June 7, 2022, the Company became a beneficiary of the US Treasury Department’s (the “Treasury”) Emergency Capital Investment Program (“ECIP”), and received ECIP funding qualifying as Tier 1 capital for NMB in the amount of \$79.1 million, which will remain with the Company in the form of perpetual preferred stock.

NMB Financial Corporation is the only bank holding company that received ECIP funding in the State of New Jersey and \$79.1 million from the Treasury investment denotes the Company as the largest beneficiary amongst more than 15 Korean-American banks operating across the United States.

The Company’s capital position is indeed strong – as of December 31, 2022, NMB had capital of \$61.6 million and coupled with ECIP, the total available capital for the Company and NMB marks \$139.4 million, which is more than sufficient to propel NMB’s future growth.

Fueled by the additional capital, the Company achieved an outstanding level of growth – the Company completed December 31, 2022 with \$774.3 million in total assets, a 43.2 % increase, compared with \$540.7 million in total assets as of December 31, 2021, which is a remarkable accomplishment. Net loans increased 84.3 % to \$642.8 from \$348.9 million and total deposits increased \$150.7 million to \$627.4 million, marking 31.6% growth during the same period.

Another noteworthy accomplishment, NMB focused its efforts on residential mortgage lending, increasing the size of the portfolio from \$69.8 million as of December 31, 2021 to \$276.4 million as of December 31, 2022. This brings consumer lending in balance with commercial and SBA lending, adding a greater level of diversification to the loan portfolio.

In 2022, the Company generated \$8.4 million in net income, a record setting largest net profit since the Company commenced its operations in 1999 – in recognition of NMB’s historical performance and achievements, Management would like to congratulate all of the Fellow Shareholders and Friends.

With respect to safety and soundness of the institution, Management of the Company and NMB continues to focus on compliance with all banking laws and regulations, and maintaining full adherence to stringent guidance of the regulatory agencies – the Federal Deposit Insurance Corporation, the New Jersey Department of Banking and Insurance and the Federal Reserve, resulting strong liquidity and robust capital positions while maintaining adequate loss reserves and remaining vigilant on safeguarding the assets.

All of us here at NMB Financial Corporation and New Millennium Bank are looking forward to undertake efforts and measures to foster dedicated employees, better serve the underserved communities and other targeted populations, and return equitable value to the Fellow Shareholders.

We ask for your continued support and guidance for NMB Financial Corporation and New Millennium Bank – together, we have so much to accomplish and prosper.

Until next time, remain safe and healthy –



Byungkuk Lee
Chairman of the Board
NMB Financial Corporation



Dong H. Kim
Chairman of the Board
New Millennium Bank



Hong Sik Hur
President and CEO
New Millennium Bank

NMB FINANCIAL CORPORATION

FORT LEE, NEW JERSEY

AUDIT REPORT

DECEMBER 31, 2022

NMB FINANCIAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
NMB Financial Corporation
Fort Lee, New Jersey

Opinion

We have audited the accompanying consolidated financial statements of NMB Financial Corporation 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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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.

A. R. Anodgrass, P.C.

Cranberry Township, Pennsylvania
March 31, 2023

NMB FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share amounts)

	December 31,	
	2022	2021
ASSETS		
Cash and due from banks	\$ 2,245	\$ 2,718
Interest-bearing deposits with other institutions	86,117	162,902
Federal funds sold	-	139
Total cash and cash equivalents	88,362	165,759
Interest-earning time deposits	365	996
Investment securities available for sale	20,940	451
Investment securities held to maturity, fair value of \$827 and \$1,129, respectively	872	1,095
Loans held for sale	3,250	6,666
Loans receivable, net of allowance for loan losses, of \$8,490 and \$8,403, respectively	642,848	348,884
Restricted stock, at cost	413	599
Premises and equipment, net	1,568	1,614
Accrued interest receivable	2,555	1,585
Foreclosed assets	696	137
Other assets	12,451	12,946
TOTAL ASSETS	\$ 774,320	\$ 540,732
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 119,584	\$ 128,697
Interest-bearing demand	507,780	348,008
Total deposits	627,364	476,705
Borrowings	-	5,000
Accrued interest payable	604	79
Other liabilities	6,952	7,562
TOTAL LIABILITIES	634,920	489,346
STOCKHOLDERS' EQUITY		
Senior Non-Cumulative Perpetual Preferred Stock, Series ECIP, \$1,000 liquidation value per share; 79,062 and zero shares authorized, issued and outstanding, respectively.	79,062	-
Common stock, no par value per share; authorized 20,000,000 shares; issued and outstanding 4,957,889 and 4,596,389 respectively.	44,841	42,730
Retained earnings	15,748	8,631
Accumulated other comprehensive (loss) income	(251)	25
TOTAL STOCKHOLDERS' EQUITY	139,400	51,386
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 774,320	\$ 540,732

See accompanying notes to the consolidated financial statements.

NMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except share and per share amounts)

	Year Ended December 31,	
	2022	2021
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	\$ 24,766	\$ 20,069
Investment securities:		
Taxable	372	78
Other	1,552	164
Total interest and dividend income	26,690	20,311
INTEREST EXPENSE		
Deposits	4,510	2,610
Borrowings	29	147
Total interest expense	4,539	2,757
NET INTEREST INCOME	22,151	17,554
Provision for loan losses	-	100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,151	17,454
OTHER INCOME		
Loan servicing fees	925	740
Customer service fees	251	200
Net realized gains on sale of loans	1,820	5,186
Other	481	562
Total other income	3,477	6,688
OTHER EXPENSE		
Salaries and employee benefits	8,700	6,893
Occupancy and equipment	1,782	1,599
Data processing and telephone	1,040	1,012
Professional fees	714	507
Furniture and equipment	342	282
Foreclosed assets	192	45
FDIC assessment	220	146
Advertising	218	152
Other	1,443	1,215
Total other expense	14,651	11,851
Income before income tax expense	10,977	12,291
Income tax expense	2,625	3,999
NET INCOME	\$ 8,352	\$ 8,292
EARNINGS PER SHARE		
Basic weighted-average common share outstanding	4,838,551	4,568,803
Diluted weighted-average common shares outstanding	4,891,651	4,683,230
Basic net income per common share	\$ 1.73	\$ 1.81
Diluted net income per common share	\$ 1.71	\$ 1.77

See accompanying notes to the consolidated financial statements.

NMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended December 31,	
	2022	2021
Net income	\$ 8,352	\$ 8,292
Other comprehensive loss:		
Unrealized losses on available for sale securities arising during the year of (\$395) and (\$25), net of tax benefit of \$119 and \$7, respectively	(276)	(18)
Other comprehensive loss	(276)	(18)
Comprehensive income	\$ 8,076	\$ 8,274

See accompanying notes to the consolidated financial statements.

NMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands)

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2020	\$ -	\$ 42,398	\$ 339	\$ 43	\$ 42,780
Exercise of 54,500 stock options	-	273	-	-	273
Share based compensation	-	59	-	-	59
Net income	-	-	8,292	-	8,292
Other comprehensive loss	-	-	-	(18)	(18)
Balance, December 31, 2021	-	42,730	8,631	25	51,386
Issuance of 79,062 of preferred stock	79,062	-	-	-	79,062
Exercise of 361,500 stock options	-	1,808	-	-	1,808
Share based compensation	-	303	-	-	303
Net income	-	-	8,352	-	8,352
Cash dividend	-	-	(1,235)	-	(1,235)
Other comprehensive loss	-	-	-	(276)	(276)
Balance, December 31, 2022	\$ <u>79,062</u>	\$ <u>44,841</u>	\$ <u>15,748</u>	\$ <u>(251)</u>	\$ <u>139,400</u>

See accompanying notes to consolidated financial statements.

NMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 8,352	\$ 8,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	100
Provision for depreciation	330	265
Amortization and provision for servicing assets	924	851
Accretion of discounts on retained SBA loans	(822)	(807)
Net amortization of securities	8	6
Accretion of net loan origination fees and costs	(933)	(3,038)
Deferred tax expense	86	(54)
Loans originated for sale	(19,672)	(52,106)
Proceeds from sales of loans	24,908	54,057
Gains on sales of loans	(1,820)	(5,186)
Stock options expense	303	59
(Increase) decrease in accrued interest receivable and other assets	(955)	526
Decrease in accrued interest payable and other liabilities	(496)	(983)
Net cash provided by operating activities	10,213	1,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(21,004)	-
Proceeds from calls, maturities of and principal repayments on securities available for sale	116	210
Proceeds from calls, maturities of and principal repayments on securities held to maturity	219	313
Purchase of interest earning time deposits	(365)	
Redemption of interest-earning time deposits	996	3,984
Net increase in loans	(292,768)	(134)
Redemption of restricted stock	186	255
Purchase of premises and equipment	(284)	(658)
Proceeds from sale of foreclosed real estate	-	-
Net cash (used for) provided by investing activities	(312,904)	3,970
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits, net	150,659	80,102
Repayments of long-term borrowings	(5,000)	(5,563)
Issuance of preferred stock	79,062	-
Cash dividends	(1,235)	-
Exercise of stock options	1,808	273
Net cash provided by financing activities	225,294	74,812
(Decrease) increase in cash and cash equivalents	(77,397)	80,764
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	165,759	84,995
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 88,362	\$ 165,759

See accompanying notes to the consolidated financial statements.

NMB FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(dollars in thousands)

	Year Ended December 31,	
	2022	2021
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid:		
Interest	\$ 4,014	\$ 2,856
Income taxes	3,238	4,428
 SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Other real estate acquired in settlement of loans	\$ 559	\$ -
Initial recognition of right-of-use asset	411	1,154
Initial recognition of lease liability	411	1,154

See accompanying notes to the consolidated financial statements.

NMB Financial Corporation
Notes to Consolidated Financial Statements

1. Organization and Nature of Operations

NMB Financial Corporation (the "Company"), is a New Jersey corporation and bank holding company whose sole business is the ownership and operation of New Millennium Bank (the "Bank"). The Company is subject to the regulations of the Federal Reserve Bank of New York.

The Bank, incorporated on November 3, 1998, was granted a New Jersey state charter on July 12, 1999, and commenced operations on July 19, 1999. The Bank generates commercial, mortgage, and consumer loans and receives deposits from customers primarily in Bergen, Middlesex, and Somerset Counties, New Jersey and New York City, New York. The Bank's customers are predominantly small and middle-market businesses and professionals. The Bank is subject to regulation of the New Jersey Department of Banking and Insurance (NJDOBI) and the Federal Deposit Insurance Corporation (FDIC). On May 8, 2009, the Bank formed a real estate holding company, New Millennium Bank Realty Company, to hold foreclosed assets.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of NMB Financial Corporation and its wholly owned subsidiary, New Millennium Bank, and its wholly owned subsidiary, New Millennium Bank Realty Company. All significant intercompany accounts and transactions have been eliminated.

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements 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, the valuation of foreclosed assets and loan servicing rights, the determination of other-than-temporary impairment on securities, the fair value of financial instruments, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

The concentrations of credit by type of loan are set forth in Note 4. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the regional and national economy. Note 3 discusses the types of securities in which the Company invests. The Company does not have any significant concentrations in any one industry or customer.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with banks, and federal funds sold, all with original maturities of 90 days or less. Generally, federal funds are purchased and sold for one-day periods.

Interest-Earning Time Deposits

Interest-earning time deposits are carried at cost. The Company's time deposits mature within one year and are maintained with major financial institutions in the United States.

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held to maturity are those debt securities that 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 securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method that approximates the interest method over their contractual lives.

Other-than-temporary impairment accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the debt security, and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. The Company did not recognize any other-than-temporary impairment changes during the years ended December 31, 2022 and 2021.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Investment in Restricted Stock, at Cost

Investment in restricted stock, at cost, is principally comprised of restricted stock in the Federal Home Loan Bank of New York, which is carried at cost. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. The Federal Home Loan Bank stock was carried at \$376,000 and \$562,000 at December 31, 2022 and 2021, respectively. Restricted stock also includes stock of the Atlantic Community Bankers Bank in the amount of \$37,000 at both December 31, 2022 and 2021. Management reviews for impairment based on the ultimate recoverability of the cost basis in the restricted stock.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value, as determined on an aggregate basis. Gains and losses on sales of loans held for sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of loans. All sales are made with limited recourse.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. 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 Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, and construction. Consumer loans consist of the following classes: residential real estate, home equity, and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual 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 nonaccrual loans, including impaired loans, is generally 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, has performed in accordance with the contractual terms for a reasonable period of time (generally six months), and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past-due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

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

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

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

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Each factor is assigned a value to reflect improving, stable, or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The Company engages in a variety of lending activities, including commercial, residential real estate, and consumer/installment transactions. The Company focuses its lending activities on individuals, professionals, and small- to medium-sized businesses.

Commercial and industrial loans are also made to entrepreneurs, proprietors, professionals, partnerships, LLPs, LLCs and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Commercial-term loans may have maturities up to ten years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans includes the borrower's accounts receivable, inventory, and machinery and equipment.

Commercial real estate loans include long-term loans financing commercial properties, either owner-occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans require a loan-to-value ratio of not greater than 80 percent at origination. Loan amortizations vary from 1 year to 25 years, and terms typically do not exceed 10 years. Interest rates can be either floating or adjustable periods for up to five years with either a rate reset provision or a balloon payment.

Commercial construction loan terms are 1 year to 18 months and have a floating rate tied to the Wall Street Journal prime rate. The Company requires a loan-to-value ratio of not less than 75 percent before, during, and after the construction. At this time, the Bank does not finance any speculative commercial construction projects and only considers construction projects that are pre-leased or owner-occupied, with cash flow meeting Bank policy.

Residential real estate loans are secured by the borrower's residential real estate in a first lien position. These loans have varying loan rates depending on the financial condition of the borrower and the loan-to-value ratio. Residential mortgages have terms up to 10 years with amortizations varying from 20 to 30 years. The Company also offers home equity lines of credit and home equity loans. Risks associated with loans secured by residential properties are generally lower than commercial loans and include general economic risks, such as the strength of the job market, employment stability, and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment.

The Company offers a variety of loans to individuals for personal and household purposes. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans, commercial real estate loans, and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent.

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

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

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

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful, and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal banking agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Troubled Debt Restructurings

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may be modified by means of extending the maturity date of the loan, reducing the interest rate on the loan to a rate that is below market, a combination of rate adjustments and maturity extensions, or by other means, including covenant modifications, forbearances, or other concessions. Generally, interest is not accrued on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with the modified terms for a period of at least six months. Interest is accrued on troubled debt restructurings, which were performing in accordance with their terms prior to the restructure and continue to perform in accordance with their modified terms. Management evaluates the allowance for loan losses with respect to troubled debt restructurings under the same policy and guidelines as all other loans are evaluated with respect to the allowance for loan losses.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the following estimated useful lives of the related assets:

	<u>Years</u>
Leasehold improvements	5–20
Furniture, fixtures, and equipment	3–10
Equipment	3–20

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. Any gain or loss upon the sale of foreclosed assets is charged to operations as incurred.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, 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 Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Loan Servicing Rights

When loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in net gain on sales of loans. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

The Company subsequently measures servicing rights using the amortization method. It evaluates servicing rights for impairment at each reporting date and reports impairment charges and subsequent recoveries in earnings. Such changes are included with loan servicing fees on the income statement.

Servicing fee income, which is reported on the income statement as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled approximately \$1,848,000 and \$1,591,000 for the years ended December 31, 2022 and 2021, respectively. Late fees and ancillary fees related to loan servicing are not material.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and net operating losses and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax bases. 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 follows the accounting guidance related to the accounting for uncertainty in income taxes. Under the “more likely than not” threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2022 and 2021, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2019.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Off-Balance-Sheet Financial Instruments

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

Earnings Per Share

Basic earnings per share represents the net income by the weighted-average number of common shares outstanding during the period. Diluted income 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 relate solely to outstanding stock options and are determined using the treasury stock method.

The following table presents the potential common shares related solely to the Company's outstanding stock options.

	2022	2021
Net income (in thousands)	\$ 8,352	\$ 8,292
Weighted-average shares outstanding	4,838,551	4,568,803
Dilutive effect of potential common shares, stock options	53,100	114,427
Diluted weighted-average common shares outstanding	4,891,651	4,683,230
Basic net income per common share	\$ 1.73	\$ 1.81
Diluted net income per common share	\$ 1.71	\$ 1.77

For the years ended December 31, 2022 and 2021, 764,100 and 121,500 stock options were anti-dilutive, respectively not included in diluted earnings per share.

Stock Compensation Plans

The Company has stock option plans in place for employees and directors. The Company recognizes the cost of services received in exchange for stock option awards based on the grant date fair value of the award. A Black-Scholes model is used to estimate the fair value of stock options. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions for grants in 2022 (1) no dividends were expected; (2) risk-free interest rate of 3.36 percent; (3) expected volatility of 17.30 percent; and (4) expected lives of options of 7.0 years. The fair value of each stock option granted was estimated using the following weighted-average assumptions for grants in 2021: (1) no dividends were expected; (2) risk-free interest rate of 1.00 percent; (3) expected volatility of 55.12 percent; and (4) expected lives of options of 7.0 years.

NMB Financial Corporation
Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Accounting Standards Codification ("ASC") Topic 606 implements a common revenue standard that clarifies the principles for recognizing revenue from contracts. The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within other income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of Topic 606 include service charges on deposits, interchange income. The Company generally acts in a principal capacity, on its own behalf, in most of its contracts with customers. In such transactions, revenue is recognized and the related costs to provide services is recognized on a gross basis in the financial statements.

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no effect on stockholders' equity or net income.

3. Investment Securities

The amortized cost and approximate fair value of securities are summarized as follows (in thousands):

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Treasury	\$ 19,999	\$ -	\$ (299)	\$ 19,700
Corporate securities	1,000	-	(57)	943
U.S. government-sponsored enterprises, residential mortgage- backed securities	300	1	(4)	297
Total	<u>\$ 21,299</u>	<u>\$ 1</u>	<u>\$ (360)</u>	<u>\$ 20,940</u>

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to Maturity				
Corporate securities	\$ 249	\$ -	\$ (20)	\$ 229
U.S. government-sponsored enterprises, residential mortgage- backed securities	623	5	(30)	598
Total	<u>\$ 872</u>	<u>\$ 5</u>	<u>\$ (50)</u>	<u>\$ 827</u>

NMB Financial Corporation
Notes to Consolidated Financial Statements

3. Investment Securities (Continued)

		December 31, 2021			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale					
U.S. government-sponsored enterprises, residential mortgage-backed securities					
	\$	415	\$ 36	\$ -	\$ 451
Total	\$	415	\$ 36	\$ -	\$ 451
		December 31, 2021			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to Maturity					
Corporate securities					
	\$	248	\$ -	\$ (1)	\$ 247
U.S. government-sponsored enterprises, residential mortgage-backed securities					
		847	35	-	882
Total	\$	1,095	\$ 35	\$ (1)	\$ 1,129

NMB Financial Corporation
Notes to Consolidated Financial Statements

3. Investment Securities (Continued)

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
U.S. treasury	\$ 19,700	\$ (299)	\$ -	\$ -	\$ 19,700	\$ (299)
Corporate securities	943	(57)	-	-	943	(57)
U.S. government-sponsored enterprises, residential mortgage-backed securities	221	(4)	-	-	221	(4)
	<u>\$ 20,864</u>	<u>\$ (360)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,864</u>	<u>\$ (360)</u>

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
Corporate securities	\$ -	\$ -	\$ 229	\$ (20)	\$ 229	\$ (20)
U.S. government-sponsored enterprises, residential mortgage-backed securities	358	(23)	82	(7)	440	(30)
	<u>\$ 358</u>	<u>\$ (23)</u>	<u>\$ 82</u>	<u>\$ (7)</u>	<u>\$ 440</u>	<u>\$ (30)</u>

	2021					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
Corporate securities	\$ -	\$ -	\$ 247	\$ (1)	\$ 247	\$ (1)

The Company had 3 securities and one security in an unrealized loss position for 12 months or more at December 31, 2022 and 2021, respectively. The unrealized losses are due to changing interest rates and is considered temporary because of acceptable financial condition and results of operations on the security, and the repayment source of principal and interest is government-backed. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2022 and 2021. The Bank does not intend to sell this security prior to recovery, and it is more likely than not that the Bank will not have to sell these securities prior to recovery.

NMB Financial Corporation
Notes to Consolidated Financial Statements

3. Investment Securities (Continued)

The amortized cost and carrying value of securities are shown below by contractual maturity at December 31, 2022. Actual maturities may differ from contractual maturities, as issuers may have to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due one year or less	\$ -	\$ -	\$ 19,999	\$ 19,700
Due after one year through five years	249	229	-	-
Due after five years through ten years	-	-	1,000	943
Due after ten years	-	-	-	-
U.S. government-sponsored enterprises, residential mortgage-backed securities	623	598	300	297
Total	\$ 872	\$ 827	\$ 21,299	\$ 20,940

There were no sales of securities in 2022 and 2021.

Investment securities with a carrying value of approximately \$940,000 and \$1,297,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes required or permitted by applicable laws and regulations.

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows (in thousands):

	2022	2021
Commercial and industrial	\$ 49,761	\$ 66,639
Commercial real estate	323,663	220,570
Construction	4,919	3,584
Residential real estate	276,433	69,804
Home equity	200	324
Consumer, other	95	8
	655,071	360,929
Allowance for loan losses	(8,490)	(8,403)
Unearned net loan origination fees and costs	(3,733)	(3,642)
Total	\$ 642,848	\$ 348,884

During 2020, the Company participated in the Paycheck Protection Program (PPP), administered directly by the U.S. Small Business Administration (SBA). The PPP provides loans to small businesses that were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who 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 \$2.8 million and \$18.4 million, respectively. The PPP loans are fully guaranteed by the SBA and may be 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 will be repaid by the SBA to the Company. PPP loans are included in the commercial and industrial loan category.

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately \$5.5 million in fees associated with the processing of these loans. Upon funding of the loan, these fees were deferred and accreted over the life of the loan. The Company recognized \$787,000 and \$2,983,000 in income for 2022 and 2021, respectively.

The following tables summarize the activity in the allowance for loan losses by loan class, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class (in thousands):

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

<u>December 31, 2022</u>	<u>Beginning</u> <u>Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision for</u> <u>Loan Losses</u>	<u>Ending</u> <u>Balance</u>	<u>Ending</u> <u>Balance</u> <u>Individually</u> <u>Evaluated</u>	<u>Ending</u> <u>Balance</u> <u>Collectively</u> <u>Evaluated</u>
Commercial and industrial \$	2,264	\$ 160	\$ 328	\$ (1,500)	\$ 932	\$ 233	\$ 699
Commercial real estate	4,143	203	15	(40)	3,915	113	3,802
Construction	108	-	100	(151)	57	-	57
Residential real estate	1,553	-	-	1,938	3,491	-	3,491
Home equity	4	-	10	(14)	-	-	-
Consumer, other	1	3	-	2	-	-	-
Unallocated	330	-	-	(235)	95	-	95
Total	\$ 8,403	\$ 366	\$ 453	\$ -	\$ 8,490	\$ 346	\$ 8,144

<u>December 31, 2021</u>	<u>Beginning</u> <u>Balance</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Provision for</u> <u>Loan Losses</u>	<u>Ending</u> <u>Balance</u>	<u>Ending</u> <u>Balance</u> <u>Individually</u> <u>Evaluated</u>	<u>Ending</u> <u>Balance</u> <u>Collectively</u> <u>Evaluated</u>
Commercial and industrial \$	2,435	\$ 116	\$ 127	\$ (182)	\$ 2,264	\$ 265	\$ 1,999
Commercial real estate	3,696	36	132	351	4,143	191	3,952
Construction	135	-	-	(27)	108	-	108
Residential real estate	1,492	-	-	61	1,553	-	1,553
Home equity	-	-	217	(213)	4	-	4
Consumer, other	-	-	-	1	1	-	1
Unallocated	221	-	-	109	330	-	330
Total	\$ 7,979	\$ 152	\$ 476	\$ 100	\$ 8,403	\$ 456	\$ 7,947

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

	Loans Receivable		
	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment
<u>December 31, 2022</u>			
Commercial and industrial	\$ 49,761	\$ 685	\$ 49,076
Commercial real estate	323,663	1,520	322,143
Construction	4,919	-	4,919
Residential real estate	276,433	1,102	275,331
Home equity	200	13	187
Consumer, other	95	-	95
Total	<u>\$ 655,071</u>	<u>\$ 3,320</u>	<u>\$ 651,751</u>

	Loans Receivable		
	Total	Individually Evaluated For Impairment	Collectively Evaluated For Impairment
<u>December 31, 2021</u>			
Commercial and industrial	\$ 66,639	\$ 579	\$ 66,060
Commercial real estate	220,570	1,043	219,527
Construction	3,584	-	3,584
Residential real estate	69,804	-	69,804
Home equity	324	17	307
Consumer, other	8	-	8
Total	<u>\$ 360,929</u>	<u>\$ 1,639</u>	<u>\$ 359,290</u>

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Company's internal risk rating system (in thousands):

	2022			2021		
	Commercial and Industrial	Commercial Real Estate	Construction Loans	Commercial and Industrial	Commercial Real Estate	Construction Loans
Pass	\$ 46,961	\$ 303,215	\$ 4,082	\$ 61,036	\$ 203,208	\$ 2,576
Special Mention	2,086	16,899	837	5,024	14,104	1,008
Substandard	714	3,549	-	579	3,258	-
	<u>\$ 49,761</u>	<u>\$ 323,663</u>	<u>\$ 4,919</u>	<u>\$ 66,639</u>	<u>\$ 220,570</u>	<u>\$ 3,584</u>

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

There were no loans classified as doubtful or loss as of December 31, 2022 or 2021.

The following tables present performing and nonperforming loans based solely on payment activity that has not been assigned an internal risk grade (in thousands):

	2022			2021		
	Residential		Consumer,	Residential		Consumer,
	Real Estate		Home Equity	Other		Real Estate
Performing	\$ 275,331	\$ 187	\$ 95	\$ 69,293	\$ 307	\$ 8
Nonperforming	1,102	13	-	511	17	-
Total	\$ 276,433	\$ 200	\$ 95	\$ 69,804	\$ 324	\$ 8

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

The following tables summarize information in regard to impaired loans by loan portfolio class (in thousands):

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	\$ 408	\$ 649	\$ -	\$ 404	\$ -
Commercial real estate	985	1,116	-	775	-
Construction	-	-	-	-	-
Residential real estate	1,102	1,102	-	527	-
Home equity	13	13	-	15	-
Consumer, other	-	-	-	-	-
Total	<u>2,508</u>	<u>2,880</u>	<u>-</u>	<u>1,721</u>	<u>-</u>
With an allowance recorded:					
Commercial and industrial	277	498	233	298	-
Commercial real estate	535	535	113	535	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total	<u>812</u>	<u>1,033</u>	<u>346</u>	<u>833</u>	<u>-</u>
Total					
Commercial and industrial	685	1,147	233	702	-
Commercial real estate	1,520	1,651	113	1,310	-
Construction	-	-	-	-	-
Residential real estate	1,102	1,102	-	527	-
Home equity	13	13	-	15	-
Consumer, other	-	-	-	-	-
Total	<u>\$ 3,320</u>	<u>\$ 3,913</u>	<u>\$ 346</u>	<u>\$ 2,554</u>	<u>\$ -</u>

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

	2021				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded:					
Commercial and industrial	\$ 237	\$ 318	\$ -	\$ 256	\$ -
Commercial real estate	185	185	-	144	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Home equity	17	17	-	20	-
Consumer, other	-	-	-	-	-
Total	<u>439</u>	<u>520</u>	<u>-</u>	<u>420</u>	<u>-</u>
With an allowance recorded:					
Commercial and industrial	342	563	265	325	-
Commercial real estate	858	858	191	450	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total	<u>1,200</u>	<u>1,421</u>	<u>456</u>	<u>775</u>	<u>-</u>
Total					
Commercial and industrial	579	881	265	581	-
Commercial real estate	1,043	1,043	191	594	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Home equity	17	17	-	20	-
Consumer, other	-	-	-	-	-
Total	<u>\$ 1,639</u>	<u>\$ 1,941</u>	<u>\$ 456</u>	<u>\$ 1,195</u>	<u>\$ -</u>

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable, as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past-due status (in thousands):

	2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or More and Still Accruing
Commercial and industrial	177	-	309	486	49,275	49,761	-
Commercial real estate	541	-	979	1,520	322,143	323,663	-
Construction	-	-	-	-	4,919	4,919	-
Residential real estate	799	-	511	1,310	275,123	276,433	-
Home equity	-	-	-	-	200	200	-
Consumer, other	-	-	-	-	95	95	-
Total	\$ 1,517	\$ -	\$ 1,799	\$ 3,316	\$ 651,755	\$ 655,071	\$ -

	2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans Receivable	90 Days or More and Still Accruing
Commercial and industrial	42	-	97	139	66,500	66,639	10
Commercial real estate	559	323	163	1,045	219,525	220,570	-
Construction	-	-	-	-	3,584	3,584	-
Residential real estate	-	-	511	511	69,293	69,804	511
Home equity	-	-	-	-	324	324	-
Consumer, other	-	-	-	-	8	8	-
Total	\$ 601	\$ 323	\$ 771	\$ 1,695	\$ 359,234	\$ 360,929	\$ 521

The following table presents nonaccrual loans by classes of the loan portfolio (in thousands):

	2022	2021
Commercial and industrial	\$ 685	\$ 579
Commercial real estate	1,520	1,043
Construction	-	-
Residential real estate	1,102	-
Home equity	13	17
Consumer, other	-	-
Total	\$ 3,320	\$ 1,639

NMB Financial Corporation
Notes to Consolidated Financial Statements

4. Loans Receivable and Allowance for Loan Losses (Continued)

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider, resulting in a modified loan, which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest-only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The following are loans modified as a TDR during the year ended December 31, 2022 (in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	1	\$ 35	\$ 33
Total	1	\$ 35	\$ 33

During the year ended December 31, 2022, the Bank had one new modification considered to be a TDR.

The following are loans modified as a TDR during the year ended December 31, 2021 (in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	4	\$ 319	\$ 319
Total	4	\$ 319	\$ 319

The Bank had \$391,000 and \$791,000 in total performing TDRs as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, the Bank did not have any loans classified as TDRs that subsequently defaulted.

NMB Financial Corporation
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5. Loan Servicing Rights

The Bank originated and sold loans guaranteed by the SBA. The Company retained the unguaranteed portion of the loans and the servicing on the loans sold and received a fee based upon the principal balance outstanding. Loans serviced totaled \$179,523,000 and \$181,736,000 at December 31, 2022 and 2021, respectively.

Whether sold or not, the guarantee associated with SBA loans is contingent upon the Company following specific policies and procedures set by the SBA. This creates off-balance-sheet risk should the SBA determine the Company is not in compliance with these policies and procedures.

The amortization of loan servicing assets is netted against loan servicing fee income in the Consolidated Statements of Income. The Company obtains updated fair values from an independent third party, and to the extent that the carrying value exceeds fair value, the adjustments to fair value are presented in the loan servicing fees in the Consolidated Statements of Income.

The following table presents changes in the servicing assets, net of valuation allowance (in thousands):

	2022	2021
Balance, beginning of year	\$ 3,352	\$ 3,116
Additions	497	1,087
Amortization	(924)	(851)
Recovery for valuation allowance of servicing	-	-
Balance, end of year	\$ 2,925	\$ 3,352

For the purposes of measuring impairment, servicing assets were stratified into commercial and industrial and commercial real estate loan categories, and fair value was determined.

6. Premises and Equipment

The components of premises and equipment are as follows (in thousands):

	2022	2021
Leasehold improvements	\$ 1,483	\$ 1,483
Furniture and fixtures	599	580
Equipment	3,147	2,882
	5,229	4,945
Less accumulated depreciation	(3,661)	(3,331)
Total	\$ 1,568	\$ 1,614

Depreciation and amortization expense was \$330,000 and \$265,000 for the years ended December 31, 2022 and 2021, respectively.

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Notes to Consolidated Financial Statements

7. Deposits

The components of deposits were as follows (in thousands):

	<u>2022</u>	<u>2021</u>
	Amount	Amount
Demand, noninterest bearing	\$ 119,584	\$ 128,697
Demand, interest bearing	27,401	21,215
Savings	93,178	135,770
Time, less than \$250	231,331	133,965
Time, over \$250	<u>155,870</u>	<u>57,058</u>
	<u>\$ 627,364</u>	<u>\$ 476,705</u>

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

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2023	\$ 344,411
2024	41,324
2025	1,319
2026	104
2027	<u>43</u>
Total	<u>\$ 387,201</u>

8. Borrowings

Borrowings consisted of the following long-term advances with the Federal Home Loan Bank of New York (FHLBNY) (in thousands):

<u>Maturity Date</u>	<u>Interest</u> <u>Rate %</u>	<u>2021</u>
April 4, 2022	2.23	\$ <u>5,000</u>
		<u>\$ 5,000</u>

There were no outstanding borrowings at December 31, 2022.

The Company has reserve lines totaling \$29 million at three of our correspondent banks as of December 31, 2022. During 2020, the Company secured a line of credit at FHLBNY, collateralized by residential real estate loans. The Company has a line of credit in the amount of \$48,954,000 as of December 31, 2022. The Company does not have any loans outstanding against the lines as of December 31, 2022 and 2021.

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9. Lease Commitments and Total Rental Expense

The Company has historically entered into a number of lease arrangements under which it is the lessee. Specifically, all of our leases for our branches and our corporate headquarters facility are subject to operating leases. In addition, we have elected the short-term lease practical expedient related to leases of various equipment used in our locations. All of our leases include optional renewal periods. Upon opening a new branch location, we typically install brand-specific leasehold improvements with a useful life of ten years. To the extent that the initial lease term of the related lease is less than the useful life of the leasehold improvements, we conclude that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term, and the related payments are reflected in the right-of-use (ROU) asset and lease liability. Generally, we do not consider any additional renewal periods to be reasonably certain of being exercised, as comparable locations could generally be identified within the same trade areas for comparable lease rates.

All of our leases are fixed rental payments. While the majority of our leases are gross leases, we also have a number of leases in which we make separate payments to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. We have elected the practical expedient not to separate lease and non-lease components for all of our building leases.

As of December 31, 2022 and 2021, the weighted-average remaining lease term for all operating leases is 5.63 years and 6.30 years, respectively. Because the rate implicit in the lease is not apparent, we utilize as the discount rate our incremental borrowing rate (FHLB collateralized borrowing rate for similar term) at the later of the adoption date or lease commencement date. The weighted-average discount rate associated with operating leases in 2022 is 2.63 percent and in 2021 is 2.50 percent.

As of December 31, 2022 and 2021, amounts recognized as right-of-use assets related to operating leases of approximately \$5,097,000 and \$5,740,000, respectively, are included in other assets, in the accompanying Consolidated Balance Sheets, while related lease liabilities of approximately \$5,619,000 and \$6,180,000, respectively, are included in other liabilities.

The total rental expense, including common area maintenance changes, included in the Consolidated Statements of Income for the years ended December 31, 2022 and 2021, is approximately \$1,399,000 and \$1,331,000, respectively.

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9. Lease Commitments and Total Rental Expense (Continued)

The future payments due under operating leases as of December 31, 2022, are as follows:

Year Ending December 31,		
2023	\$	1,247
2024		1,142
2025		994
2026		899
2027		720
Thereafter		<u>1,037</u>
Total future minimum lease payments		6,039
Less: imputed interest		<u>(420)</u>
Total lease liabilities	\$	<u><u>5,619</u></u>

10. Accumulated Other Comprehensive Income (Loss)

U.S. GAAP requires that recognized revenue, expenses, gains, and losses be included in net income or loss. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as components of comprehensive income.

The components of accumulated other comprehensive (loss) income and related tax effects are as follows (in thousands):

	<u>2022</u>		<u>2021</u>
Unrealized gains (losses) on available for sale securities	\$ (359)	\$	36
Tax effect	<u>108</u>		<u>(11)</u>
Net of tax	\$ <u><u>(251)</u></u>	\$	<u><u>25</u></u>

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Notes to Consolidated Financial Statements

11. Stockholders' Equity and Stock Option Plans

In 2014, the stockholders approved the 2014 stock option plan – A, which may grant 540,000 options under the plan. Plan A may issue incentive stock options (ISO) to employees of the Bank and 180,000 non-qualified stock options (NQO) to nonemployee directors. The plan was approved by the NJDOBI in 2015. There are 502,500 options granted under the plan, with 37,500 remaining.

In 2014, the stockholders approved the 2014 Stock Option Plan – B, which may grant 180,000 options under the plan. Plan B may issue grants for NQOs to nonemployee directors. This plan was approved by the NJDOBI in 2015. There are 180,000 options granted under the plan with no options remaining.

In 2022, the stockholders approved the 2022 Stock Option Plan which may grant 720,000 options under the plan. Plan may issue incentive stock options (ISO) to employees of the Bank and 360,000 non-qualified stock options (NQO) to nonemployee directors. This plan was approved by the NJDOBI in 2022. There are 687,500 options granted under the plan with 32,500 options remaining.

The stock option plans are administered by the Compensation Committee. The committee members have the authority to determine (i) the individuals to whom and the time at which options are to be granted; (ii) whether such options are to be ISOs or NQOs (subject to requirements of the Internal Revenue Code); (iii) the terms and conditions of any option granted, including any vesting period; (iv) the exercise price; and (v) the administration of the stock option plans. There are 70,000 options available under the Stock Option Plans as of December 31, 2022.

Options granted pursuant to the stock option plans must be exercisable at a price greater than or equal to the par value of the common stock, but in no event may the option price be lower than (i) in the case of the ISO, the fair market value of the shares subject to the ISO on the date of grant; (ii) in the case of a NQO issued to a director as compensation for serving as a director or as a member of the advisory boards of the Bank, the fair market value of the shares subject to the NQO on the date of grant, and (iii) in the case of a NQO issued to a grantee as employment compensation, 85 percent of the fair market value of the shares subject to the NQO on the date of grant. In addition, no ISO may be granted to an employee who owns common stock possessing more than 10 percent of the total combined voting power of the Bank's common stock, unless the price is at least 110 percent of the fair market value (on the date of grant) of the common stock.

Total stock-based compensation related to stock options was \$303,000 and \$59,000 for the years ended December 31, 2022 and 2021, respectively.

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Notes to Consolidated Financial Statements

11. Stockholders' Equity and Stock Option Plans (Continued)

The following summarizes changes in stock options outstanding under the plans (in thousands):

	2022			2021		
	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In Years)	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In Years)
Outstanding, beginning of year	618,000	\$ 5.37	4.40	633,000	\$ 5.24	4.87
Granted	687,500	8.00	9.68	76,500	6.50	9.59
Exercised	(361,500)	5.00	-	(54,500)	5.00	-
Forfeited	-	-	-	(37,000)	5.96	-
Outstanding, end of year	944,000	\$ 7.43	8.36	618,000	\$ 5.37	4.40
Exercisable at year-end	190,600	\$ 5.69	3.54	541,500	\$ 5.21	3.67

Stock options outstanding at December 31, 2022 and 2021, are exercisable between \$8.00 per share and \$5.00 per share. There were 687,500 options granted during the year ended December 31, 2022.

At December 31, 2022 and 2021, options outstanding and exercisable had an intrinsic value of \$425,000 and \$745,000, respectively.

At December 31, 2022, unrecognized share-based compensation expense related to nonvested options amounted to approximately \$1,593,000. This amount is expected to be recognized over a weighted-average period of three years.

12. Employee Benefit Plan

The Company has a 401(k) defined contribution salary deferral plan that covers substantially all full-time employees. The plan provides for contributions by the Company in such amounts as its Board of Directors determines. There were \$85,000 and \$80,000 charged to expense for the years ended December 31, 2022 and 2021, respectively.

13. Income Taxes

The components of income tax expense are as follows (in thousands):

	2022	2021
Current payable:		
Federal	\$ 1,921	\$ 2,258
State	618	1,795
	2,539	4,053
Deferred	86	(54)
Total	\$ 2,625	\$ 3,999

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Notes to Consolidated Financial Statements

13. Income Taxes (Continued)

A reconciliation of the statutory federal income tax at a rate of 21 percent to the income tax expense included in the Consolidated Statements of Income is as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Federal tax expense at statutory rate	\$ 2,306	\$ 2,581
Meals and entertainment	4	2
State income tax, net of federal income tax effect	488	1,418
Other	(173)	(2)
	<u>\$ 2,625</u>	<u>\$ 3,999</u>

Net deferred tax assets consisted of the following components (in thousands):

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Allowance for loan losses	\$ 2,217	\$ 2,156
Nonaccrual interest	52	101
Net operating loss carryforwards	562	609
Lease liability	1,526	1,675
Unrealized losses on securities available for sale	108	-
Other	119	159
Total gross deferred tax assets	<u>4,584</u>	<u>4,700</u>
Deferred tax liabilities:		
Prepaid expenses	(62)	(28)
Unrealized gains on securities available for sale	-	(11)
Right-of-use asset	(1,384)	(1,556)
Total gross deferred tax liabilities	<u>(1,446)</u>	<u>(1,595)</u>
Net deferred tax assets	<u>\$ 3,138</u>	<u>\$ 3,105</u>

The net deferred tax assets as of December 31, 2022 and 2021, are included in other assets on the Company's Consolidated Balance Sheets.

The Company has net operating loss carryforwards available for federal income tax purposes of approximately \$2.7 million, which will begin to expire in 2032.

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Notes to Consolidated Financial Statements

14. Transactions with 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 directors, officers, principal stockholders, their immediate families, and affiliated companies (commonly referred to as related parties). At December 31, 2022 and 2021, these persons were indebted to the Company for loans totaling \$337,000 and \$569,000, respectively. During 2022 and 2021, \$0 and \$300,000, respectively, was disbursed on a one-year commercial line of credit, for which payments in the amount of \$0 and \$5,000 were applied to interest only in 2022 and 2021, respectively, as this is the ordinary course of business with construction lines of credit.

As of December 31, 2022 and 2021, deposits from directors, officers, and their affiliates amounted to approximately \$11.6 million and \$12.4 million, respectively.

15. Financial Instruments with Off-Balance-Sheet Risk

The Bank 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 and letters of credit is represented by the contractual amount of those instruments. The Bank 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 is as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Commitments to grant loans	\$ 9,820	\$ 9,710
Unfunded commitments under lines of credit	19,242	17,988
Standby letter of credit	551	851
	<u>\$ 29,613</u>	<u>\$ 28,549</u>

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

Outstanding letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2022 and 2021, for guarantees under standby letters

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of credit issued is not material.

16. Regulatory Matters

As announced on March 15, 2020, the Federal Reserve Board reduced reserve requirement ratios to 0 percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet 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 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total, Tier 1 capital, and common Tier 1 (as defined in the regulations) to risk-weighted assets and of tier 1 capital to average assets. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, common Tier 1, and Tier 1 leverage ratios as set forth in the table (dollar amounts in thousands).

	2022			2021		
	Amount	Ratio		Amount	Ratio	
<u>Total capital</u>						
<u>(to risk-weighted assets)</u>						
Actual	\$ 67,871	12.53	%	\$ 54,694	16.36	%
For capital adequacy purposes	43,339	8.00		26,747	8.00	
To be well capitalized	54,174	10.00		33,434	10.00	
<u>Tier 1 capital</u>						
<u>(to risk-weighted assets)</u>						
Actual	\$ 61,078	11.27	%	\$ 50,463	15.09	%
For capital adequacy purposes	32,504	6.00		20,060	6.00	
To be well capitalized	43,339	8.00		26,747	8.00	
<u>Common equity Tier 1 capital</u>						
<u>(to risk-weighted assets)</u>						
Actual	\$ 61,078	11.27	%	\$ 50,463	15.09	%
For capital adequacy purposes	24,378	4.50		15,045	4.50	
To be well capitalized	35,213	6.50		21,732	6.50	
<u>Tier 1 capital</u>						
<u>(to average assets)</u>						
Actual	\$ 61,078	8.70	%	\$ 50,463	9.45	%
For capital adequacy purposes	28,085	4.00		21,359	4.00	
To be well capitalized	35,107	5.00		26,699	5.00	

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Notes to Consolidated Financial Statements

16. Regulatory Matters (Continued)

At December 31, 2022, the Bank maintained capital levels that met or exceeded the levels required to be considered well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category. The capital position of the Company does not differ significantly from the Bank's capital position.

Information presented reflects the Basel III capital requirements that became effective January 1, 2015, for the Bank. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings, and other factors. The rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5 percent of common equity Tier 1 capital to risk-weighted assets, in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement started to be phased in beginning January 1, 2016, at 0.625 percent of risk-weighted assets and increased each year until fully phased-in in January 2019, when the full capital conservation buffer requirement is effective. On January 1, 2019, the capital conservation buffer is fully phased-in at 2.50 percent.

17. Fair Value Measurements and Disclosures

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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17. Fair Value Measurements and Disclosures (Continued)

Level I - Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level I assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level II - Valuation is based on inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level III - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities. Level III assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

	December 31, 2022			
	Level I	Level II	Level III	Total
Investment securities available for sale:				
U.S. Treasury	\$ -	\$ 19,700	\$ -	\$ 19,700
U.S. government-sponsored enterprises, residential mortgage-backed securities	-	297	-	297
Corporate securities	-	943	-	943
Total	\$ -	\$ 20,940	\$ -	\$ 20,940

	December 31, 2021			
	Level I	Level II	Level III	Total
Investment securities available for sale:				
U.S. government-sponsored enterprises, residential mortgage-backed securities	\$ -	\$ 451	\$ -	\$ 451
Total	\$ -	\$ 451	\$ -	\$ 451

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17. Fair Value Measurements and Disclosures (Continued)

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

	December 31, 2022			
	Level I	Level II	Level III	Total
Impaired loans	\$ -	\$ -	\$ 466	\$ 466
Total	\$ -	\$ -	\$ 466	\$ 466

	December 31, 2021			
	Level I	Level II	Level III	Total
Impaired loans	\$ -	\$ -	\$ 691	\$ 691
Total	\$ -	\$ -	\$ 691	\$ 691

For non-financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

	December 31, 2022			
	Level I	Level II	Level III	Total
Foreclosed assets	\$ -	\$ -	\$ 696	\$ 696
Total	\$ -	\$ -	\$ 696	\$ 696

	December 31, 2021			
	Level I	Level II	Level III	Total
Foreclosed assets	\$ -	\$ -	\$ 137	\$ 137
Total	\$ -	\$ -	\$ 137	\$ 137

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are carried at fair value less estimated cost to sell. Fair value is based upon independent market prices or appraised value of the property. These assets are included in Level III fair value based upon the lowest level of input that is significant to the fair value measurement.

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Notes to Consolidated Financial Statements

17. Fair Value Measurements and Disclosures (Continued)

Quantitative information about Level III fair value measurements is included in the table below (in thousands):

December 31, 2022	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 466	Appraisal of collateral	Appraisal adjustments	29.00%
			Liquidation expenses	6.00%
Foreclosed assets	696	Appraisal of collateral	Appraisal adjustments	19.00%
			Liquidation expenses	6.00%

Quantitative Information About Level III Fair Value Measurements				
December 31, 2021	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 691	Appraisal of collateral	Appraisal adjustments	29.00%
			Liquidation expenses	6.00%
Foreclosed assets	137	Appraisal of collateral	Appraisal adjustments	19.00%
			Liquidation expenses	6.00%

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17. Fair Value Measurements and Disclosures (Continued)

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value on the Company's Consolidated Balance Sheets.

Fair values are made at a specific point in time, based on relevant market information and information about the financial instrument. These fair values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Also, it is the Company's general practice and intention to hold most of its financial instruments to maturity and not to engage in trading or sales activities. Because no market exists for a significant portion of the Company's financial instruments, fair values are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions can significantly affect the fair values. The carrying amounts for cash and cash equivalents, interest-earning time deposits, restricted stock, accrued interest receivable and payable approximate fair value and are considered Level I measurements.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those for which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level III fair values, based upon the lowest level of input that is significant to the fair value measurements.

Foreclosed Assets

Foreclosed assets consist of properties acquired as a result of deeds in lieu of foreclosure, foreclosure, or through other means related to collateral on Company loans. Costs relating to the development or improvement of assets are capitalized, and costs relating to holding the property are charged to expense. The Company had \$696,000 and \$137,000 of foreclosed assets as of December 31, 2022 and 2021, respectively. These assets are included as Level III fair values, based upon the highest level of input that is significant to the fair value measurements.

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Notes to Consolidated Financial Statements

17. Fair Value Measurements and Disclosures (Continued)

The estimated fair values of the Company's financial instruments were as follows (in thousands):

		2022				
		Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:						
Securities held to maturity	\$	872	\$ 827	\$ -	\$ 827	\$ -
Loans receivable, net of allowance, including loans held for sale		646,098	638,264	-	-	638,264
Loan servicing assets		2,925	3,669	-	3,669	-
Financial liabilities:						
Deposits	\$	627,364	\$ 622,459	\$ -	\$ 622,459	\$ -
Borrowings		-	-	-	-	-
Off-balance-sheet financial instruments:						
Commitments to extend credit		-	-	-	-	-
Outstanding letters of credit		-	-	-	-	-
		2021				
		Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:						
Securities held to maturity	\$	1,095	\$ 1,129	\$ -	\$ 1,129	\$ -
Loans receivable, net of allowance, including loans held for sale		355,550	376,535	-	-	376,535
Loan servicing assets		3,352	3,926	-	3,926	-
Financial liabilities:						
Deposits	\$	476,705	\$ 476,846	\$ -	\$ 476,846	\$ -
Borrowings		5,000	5,029	-	5,029	-
Off-balance-sheet financial instruments:						
Commitments to extend credit		-	-	-	-	-
Outstanding letters of credit		-	-	-	-	-

18. Emergency Capital Investment Program

Established by the Consolidated Appropriations Act, 2021, the Emergency Capital Investment Program (ECIP) was created to encourage Community Development Financial Institutions, such as the Bank, and minority depository institutions to augment their efforts to support small and minority-owned businesses and consumers in low-income and underserved communities. The Company issued \$79.1 million of Senior Preferred Stock to the U.S Department of the Treasury (Treasury) pursuant to ECIP on June 7, 2022. The ECIP investment from the Treasury is intended to qualify as Tier 1 capital of the Company for regulatory capital purposes.

NMB Financial Corporation
Notes to Consolidated Financial Statements

18. Emergency Capital Investment Program (Continued)

The Senior Preferred issued to the Treasury will pay non-cumulative dividends, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year beginning on the first dividend payment date after the two- year anniversary of the date of issuance. The dividend rate to be paid on the Senior Preferred is 2% but may adjust annually based on certain measurements of the Company's extensions of credit to minority, rural, and urban low-income and underserved communities and low- and moderate-income borrowers. The Company is entitled to redeem the Senior Preferred on or after the fifth anniversary of the issuance of Senior Preferred, subject to approval by the Federal Reserve and in accordance with applicable regulatory capital regulations.

19. Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the Consolidated Balance Sheet date of December 31, 2022, for items that should potentially be recognized or disclosed in these consolidated financial statements. No other events have occurred that would require adjustment to or disclosure in these consolidated financial statements. The evaluation was conducted through March 31, 2023, the date these consolidated financial statements were available to be issued.

ORGANIZATION

BOARD OF DIRECTORS

Byungkuk Lee

Chairman of the Board
NMB Financial Corporation
President & CEO
Leeward International Inc.

Dong Hwan Kim

Chairman of the Board
New Millennium Bank
President & CEO
Powerline Imports Inc.

Young Kil Kim

Chairman
Bethel Industries, Inc.

Donna Baik

President
Lovely Homes LLC

Yeong S. Shim

CEO
DHY Sonamoo, LLC

In Jin Choi

Private Investor

Jason Wong Chon

CEO
Missha US, Inc.

Hong Sik Hur

President & CEO
New Millennium Bank

EXECUTIVE OFFICERS

Hong Sik Hur

President & Chief Executive Officer

James S. Ryu

SVP & Chief Corporate Officer

Frank J. Gleeson

SVP & Chief Financial Officer

Justin Kim

SVP & Chief Credit Officer

Chan Park

SVP & Chief Marketing Officer

Anthony TK Suh

SVP & Chief Branch Banking Officer

William Lee

SVP & CCLO
Home Mortgage Department

Bo-Young K. Lee

SVP & Controller

RELATIONSHIP OFFICERS

Kwan Sop Song

SVP & LPO Manager
Seattle Office

Keun Joo Lee

FVP & NY Regional
Loan Center Manager

Richard Park

FVP & LPO Manager
Dallas Office

Hitesh Patel

VP & Relationship Manager
New Brunswick Branch

ADMINISTRATIVE OFFICERS

Steven Chang

FVP & SBA Manager

Hack Chull Kim

FVP & Commercial Loan Manager

Archita Roy

FVP & BSA Officer

Ja Young Choi

VP & Note Manager

Sean Kim

VP & IT Manager

Yung Jin Kim

AVP & Administrative Officer

ORGANIZATION



OFFICE LOCATIONS

Corporate Headquarters
222 Bridge Plaza South
Suite 400
Fort Lee, NJ 07024
Tel: 201-585-6090

SBA Loan Center
222 Bridge Plaza South
Suite 400
Fort Lee, NJ 07024
Tel: 201-585-6090

Dallas Loan Production Office
15305 Dallas Pkwy 11th Floor
Suite 1146
Addison, TX 75001
Tel: 469-237-1608

Seattle Loan Production Office
16329 Cascadian Way
Bothell, WA 98012
Tel: 425-478-4136

BRANCH LOCATIONS

New Brunswick Branch
350 Handy Street
New Brunswick, NJ 08901
Tel: 732-729-1100

Fort Lee Branch
1625 Lemoine Avenue
Fort Lee, NJ 07024
Tel: 201-944-1110

Bayside Branch
209-25 Northern Boulevard
Bayside, NY 11361
Tel: 347-836-4914

Fort Lee Corporate Branch
222 Bridge Plaza South
Suite 400
Fort Lee, NJ 07024
Tel: 201-585-6090

Manhattan Branch
312 5th Avenue, 3rd Floor
New York, NY 10001
Tel: 212-239-1023

Palisades Park Branch
136 Broad Avenue
Palisades Park, NJ 07650
Tel: 201-944-1983

Flushing Branch
141-28 Northern Boulevard
Flushing, NY 11354
Tel: 718-888-1895

Closter Branch
570 Piermont Road, A-2
Closter, NJ 07624
Tel: 551-303-5125

Duluth Branch
3350 Steve Reynolds Blvd Unit #106
Duluth, GA 30096
Tel: 678-266-6269

OTHER INFORMATION

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**| We're Your Community
We're Your Community Bank**

