Communities First Financial Corporation

2019 Annual Report

COMMUNITIES FIRST FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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December 31, 2019 and 2018

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Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and
Board of Directors
Communities First Financial Corporation
Fresno, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Communities First Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Communities First Financial Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Sacramento, California
March 26, 2020

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
For the Years Ended December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and due from banks	$ 13,082,026	$ 10,699,827
Federal funds sold	18,057,000	26,437,000
Interest-bearing deposits in banks	499,207	5,244,561
Total cash and cash equivalents	31,638,233	42,381,388
Certificates of deposit	9,914,000	10,906,000
Securities available-for-sale	97,629,269	83,856,984
Securities held-to-maturity (fair value $11,853,279 and $12,203,541 as of December 31, 2019 and 2018, respectively)	11,528,903	12,091,875
Loans held for sale	13,200,981	4,080,500
Loans, net of allowance (allowance of $4,541,693 and $4,048,891 as of December 31, 2019 and 2018, respectively)	358,692,120	299,502,561
SBIC investments and correspondent bank stock, at cost	2,612,138	2,434,241
Cash surrender value of life insurance	7,991,321	7,780,366
Premises and equipment, net	228,554	285,946
Interest receivable and other assets	4,956,824	3,888,975
Total assets	$ 538,392,343	$ 467,208,836
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 482,873,457	$ 424,345,524
Interest payable and other liabilities	3,558,181	2,148,928
Total liabilities	486,431,638	426,494,452
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock - 5,000,000 shares authorized, no par value; 2,940,996 and 2,858,172 shares issued and outstanding in 2019 and 2018, respectively	29,868,851	28,453,102
Retained earnings	21,909,217	12,707,859
Accumulated other comprehensive income (loss)	182,637	(446,577)
Total shareholders' equity	51,960,705	40,714,384
Total liabilities and shareholders' equity	$ 538,392,343	$ 467,208,836

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2019, 2018, and 2017

	2019	2018	2017
Interest Income:			
Loans, including fees	$ 19,505,534	$ 15,661,655	$ 13,109,730
Taxable investment securities	2,555,163	2,117,868	1,383,957
Tax-exempt investment securities	63,339	70,062	166,226
Federal funds sold and other	1,031,683	1,025,266	527,848
Total interest income	23,155,719	18,874,851	15,187,761
Interest Expense			
Savings deposits, NOW, and money market accounts	617,172	316,709	235,118
Time deposits	421,852	313,336	241,517
Other borrowings	3,350	8	4
Total interest expense	1,042,374	630,053	476,639
Net interest income	22,113,345	18,244,798	14,711,122
Provision for loan losses	645,000	950,000	825,000
Net interest income after provision for loan losses	21,468,345	17,294,798	13,886,122
Non-interest income:			
Service charges on deposits	680,162	531,513	454,113
Merchant services	1,575,953	595,955	521,659
Gain (loss) on sale of investment securities	5,862	(14,137)	119,412
Gain on sale of loans	1,307,510	106,067	465,104
Income from life insurance	210,955	904,006	72,190
Other	269,881	279,256	294,590
Total non-interest income	4,050,323	2,402,660	1,927,068
Non-interest expenses:			
Salaries and employee benefits	8,009,324	6,390,733	5,384,920
Occupancy and equipment	799,231	773,906	664,325
Regulatory assessments	129,600	292,769	281,600
Data processing fees	846,545	1,137,148	661,744
Professional fees	811,504	547,619	467,937
Marketing and business promotion	678,326	877,635	458,050
Director fees and stock-based compensation	279,300	228,297	387,838
Other expenses	1,330,191	1,019,796	866,470
Total non-interest expenses	12,884,021	11,267,903	9,172,884
Income before income taxes	12,634,647	8,429,555	6,640,306
Provision for income taxes	3,433,289	2,180,010	2,956,608
Net income	$ 9,201,358	$ 6,249,545	$ 3,683,698
Net income per share - basic	$ 3.14	$ 2.19	$ 1.31
Net income per share - diluted	$ 3.09	$ 2.14	$ 1.28

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019, 2018, and 2017

	2019	2018	2017
Net income	$ 9,201,358	$ 6,249,545	$ 3,683,698
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized holding gains (losses) during the year	899,124	(760,874)	60,666
Reclassification adjustment for (gains) losses realized in net income	(5,862)	14,137	(119,412)
Net unrealized gains (losses)	893,262	(746,737)	(58,746)
Income tax (expense) benefit	(264,048)	220,735	36,985
Other comprehensive income (loss)	629,214	(526,002)	(21,761)
Total comprehensive income	$ 9,830,572	$ 5,723,543	$ 3,661,937

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2019, 2018, and 2017

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2017	2,732,043	$ 27,054,127	$ 2,774,616	$ 101,186	$ 29,929,929
Issuance of common stock	43,800	521,220	-	-	521,220
Stock based compensation	-	383,920	-	-	383,920
Exercise of stock options	20,300	75,809	-	-	75,809
Net issuance of restricted stock awards	41,170	-	-	-	-
Net income	-	-	3,683,698	-	3,683,698
Other comprehensive loss	-	-	-	(21,761)	(21,761)
Balances, December 31, 2017	2,837,313	$ 28,035,076	$ 6,458,314	$ 79,425	$ 34,572,815
Stock based compensation	-	418,026	-	-	418,026
Exercise of stock options	151	-	-	-	-
Net issuance of restricted stock awards	20,708	-	-	-	-
Net income	-	-	6,249,545	-	6,249,545
Other comprehensive loss	-	-	-	(526,002)	(526,002)
Balances, December 31, 2018	2,858,172	$ 28,453,102	$12,707,859	$ (446,577)	$ 40,714,384
Issuance of common stock	34,100	731,104	-	-	731,104
Stock based compensation	-	536,695	-	-	536,695
Exercise of stock options	23,126	147,950	-	-	147,950
Net issuance of restricted stock awards	25,598	-	-	-	-
Net income	-	-	9,201,358	-	9,201,358
Other comprehensive income	-	-	-	629,214	629,214
Balances, December 31, 2019	2,940,996	$ 29,868,851	$21,909,217	$ 182,637	$ 51,960,705

See accompanying notes to the consolidated financial statements.

	2019	2018	2017
Cash flows from operating activities			
Net income	$ 9,201,358	$ 6,249,545	$ 3,683,698
Adjustments to reconcile net income to net cash From operating activities:			
Depreciation of premises and equipment	176,310	158,140	113,773
Amortization and accretion on securities available for sale, net	601,546	691,825	752,232
Amortization and accretion on securities held to maturity, net	117,130	1,509	-
Provision for loan losses	645,000	950,000	825,000
(Gain) loss on sale of investment securities	(5,862)	14,137	(119,412)
Gain on sale of loans held for sale	(1,307,509)	(106,067)	(465,104)
Proceeds from sale of loans held for sale	51,863,353	-	5,297,089
Originations of loans held for sale	(60,990,600)	(4,080,500)	(4,831,985)
Stock based compensation expense	536,695	418,026	383,920
Increase in value of life insurance	(210,955)	(221,418)	(72,190)
Increase in interest receivable	(517,466)	(344,458)	(369,778)
Increase in interest payable and other liabilities	1,409,253	704,577	171,755
(Increase) decrease in other assets	(814,431)	413,573	(44,884)
Net cash provided by operating activities	703,822	4,848,889	5,324,114
Cash flow from investing activities			
Purchase of certificates of deposit	(1,243,000)	(9,165,000)	(748,000)
Proceeds from maturities of certificates of deposit	1,242,000	492,000	748,000
Proceeds from sales of certificates of deposit	993,000	2,966,000	-
Purchase of available-for-sale securities	(40,294,600)	(30,584,088)	(24,260,786)
Proceeds from maturities of available-for-sale securities	25,845,881	17,183,027	9,514,210
Proceeds from sale of available-for-sale securities	974,011	755,000	7,720,311
Purchase of held-to-maturity securities	(3,454,958)	(12,122,261)	-
Proceeds from maturities of held-to-maturity securities	3,900,800	28,877	-
Net increase in loans	(58,520,283)	(39,842,863)	(37,079,363)
Purchase of SBIC investments and correspondent bank stock	(177,897)	(198,456)	(325,403)
Purchase of company owned life insurance	-	-	(8,000,000)
Proceeds from company owned life insurance	-	513,242	-
Purchases of premises and equipment	(118,918)	(174,126)	(216,003)
Net cash used in investing activities	(70,853,964)	(70,148,648)	(52,647,034)
Cash flows from financing activities			
Net increase in demand deposits and savings accounts	55,634,971	61,949,710	36,809,014
Net increase (decrease) in time deposits	2,892,962	(9,004,721)	2,260,817
Net proceeds from exercise of stock options	147,950	-	75,809
Cash proceeds from issuance of common stock	731,104	-	521,220
Net cash provided by financing activities	59,406,987	52,944,989	39,666,860
Net change in cash and cash equivalents	(10,743,155)	(12,354,770)	(7,656,060)
Cash and cash equivalents, beginning of year	42,381,388	54,736,158	62,392,218
Cash and cash equivalents, end of year	$ 31,638,233	$ 42,381,388	$ 54,736,158

(Continued)

Supplemental disclosures of cash flow information:						
Interest paid	$	1,027,924	$	622,485	$	447,646
Taxes paid	$	3,840,000	$	2,130,000	$	2,430,000
Operating cash flows from operating leases	$	481,625	$	-	$	-
Non-cash investing and financing activities:						
Initial recognition of operating lease right-of-use assets	$	1,001,361	$	-	$	-
Right-of-use assets obtained in exchange for new operating lease liabilities	$	76,577	$	-	$	-

See accompanying notes to the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Communities First Financial Corporation (the Company) conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Nature of Operations: On November 7, 2014 (the Effective Date), a bank holding company reorganization was completed whereby Communities First Financial Corporation became the parent holding company of Fresno First Bank (the Bank). On the Effective Date, each of the Bank's outstanding shares of common stock converted into an equal number of shares of common stock of Communities First Financial Corporation, and the Bank became its wholly-owned subsidiary. The Company's administrative headquarters is based in Fresno, California.

The Bank is incorporated in the state of California and organized as a single operating segment that operates one full-service office in Fresno, California. In September 2018 the Bank opened a loan production office in Torrance, California, and in October 2019 opened a SBA production office in San Diego, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events: In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020 and on March 11, 2020 was declared a pandemic. The operations and business results of the Company could be materially adversely affected. Significant estimates as disclosed in Note 1, including the allowance for loan losses may be materially adversely impacted by local, state and national restrictions and events designed to contain the coronavirus. The magnitude of the impact is likely dependent upon the length and severity of the disruption.

The Company has evaluated the effects of subsequent events for recognition and disclosure through March 26, 2020, which is the date the consolidated financial statements were available to be issued.

Consolidation: The consolidated financial statements include the accounts of Communities First Financial Corporation and its wholly owned subsidiary, Fresno First Bank. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required 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 consolidated financial statements, and revenues and expenses during the reported year. Actual results could differ from those estimates.

Concentrations of Credit Risk: Assets and liabilities that subject the Company to concentrations of credit risk consist of cash balances at other banks, loans, and deposits. Most of the Company's customers are located within Fresno County and the surrounding areas. The Company's primary lending products are discussed in Note 3 to the consolidated financial statements. The Company did not have any significant concentrations in its business with any one customer or industry. The Company obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies based on the details underlying each loan agreement.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2019, and 2018, the Company has cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal. Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2019 and 2018.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash equivalents include cash, due from banks, interest-bearing deposits in financial institutions with maturities of 90 days or less, and federal funds sold. Generally, federal funds are sold for one-day periods and interest-bearing deposits are for periods of 90 days or less.

Securities: Held-to-maturity securities consist of U.S. agency securities and mortgage-backed securities not classified as trading securities or available-for-sale securities. These securities are carried at amortized cost when management has the positive intent and ability to hold them to maturity. Available-for-sale securities consist of U.S. agency securities, obligations of states and political subdivisions, mortgage-backed securities, and other securities not classified as trading securities or held-to-maturity securities. These securities are carried at estimated fair value with unrealized holding gains and losses, net of tax, reported as a separate component of accumulated other comprehensive income, until realized.

Gains and losses on the sale of securities are determined using the specific identification method. The amortization of premiums and accretion of discounts are recognized as adjustments to interest income using the interest method over the period to call or maturity.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors.

The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income.

Loans: Loans are reported at the principal amount outstanding, net of deferred loan fees and costs and the allowance for loan losses. Unearned discounts on installment loans are recognized as income over the terms of the loans. Interest on other loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding.

Loan fees, net of certain direct costs of origination, are deferred and amortized over the contractual term of the loan as an adjustment to the interest yield. During the years ended December 31, 2019, 2018, and 2017 salaries and employee benefits expense totaling $382,758, $152,784, and $143,711, respectively, were deferred as loan origination costs.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Allowance for loan losses: The allowance for loan losses is established through a provision for loan losses charged to operations. Loan losses are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries of previously charged off amounts, if any, are credited to the allowance.

Management employs a systematic methodology for determining the allowance for loan losses. On a regular basis, management reviews the credit quality of the loan portfolio and considers problem and delinquent loans, existing general economic conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions, recent loss experience, duration of the current business cycle, bank regulatory examination results, and findings of the Company's internal credit examiners. The allowance for loan losses at December 31, 2019 and 2018 reflects management's estimate of probable incurred losses in the portfolio. This evaluation is inherently subjective as it requires estimates that are 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. Impaired loans, as defined, are measured based on 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. The general component relates to non-impaired loans and is based on historical loss experience and loss history experienced by the Company's peers when the Company did not have losses in a particular loan class, adjusted for qualitative factors impacting the loan portfolio. 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 considers a loan impaired when it is probable that all amounts of principal and interest due will not be collected according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, borrower's ability to repay, credit worthiness, 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, current credit worthiness, and the amount of the shortfall in relation to the principal and interest owed.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructuring: In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring. The Company measures any loss on the troubled debt restructuring in accordance with the guidance concerning impaired loans set forth above. Additionally, loans modified in troubled debt restructurings are generally placed on non-accrual status at the time of restructuring. These loans are returned to accrual status after the borrower demonstrates performance with the modified terms for a sustained period of time (generally six months) and has the capacity to continue to perform in accordance with the modified terms of the restructured debt.

SBIC Investments and Correspondent Bank Stock: The Company is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. The Company held stock in the FHLB totaling $1,505,500 and $1,434,600 at December 31, 2019 and 2018, respectively. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. FHLB stock was not considered impaired as of December 31, 2019 and 2018. Correspondent bank stock accounts on the consolidated balance sheet include The Independent Bankers Bank (TIB) stock of $225,147 and Pacific Coast Bankers' Bank (PCBB) stock of $400,000 at December 31, 2019 and 2018. TIB and PCBB stock are carried at cost and were not considered impaired as of December 31, 2019 and 2018. The Company has made certain investments in Small Business Development Corporations (SBICs). SBIC investments on the consolidated balance sheet include the Caltius Fund V of $113,146 and $74,494 and the Central Valley Fund III of $360,000 and $300,000 at December 31, 2019 and 2018, respectively. These investments are carried at cost and were not considered impaired as of December 31, 2019 and 2018.

Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which range from three to seven years for computer equipment, equipment, furniture, and fixtures. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Advertising Costs: The Company expenses the costs of advertising in the year incurred. Advertising expense was $224,272, $352,449, and $244,235 for the years ended December 31, 2019, 2018, and 2017, respectively.

Other Real Estate Owned: Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses. As of December 31, 2019 and 2018 there was no other real estate owned by the Company.

Loans Held for Sale: Loans held for sale are reported at the lower of cost or fair value. Cost generally approximates market value, given the short duration of these assets. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the period of enactment.

A valuation allowance against net deferred tax assets is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

In accordance with accounting standards, the Company has assessed its tax positions and has concluded there are no unrecognized tax benefits at December 31, 2019 and 2018. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2019 and 2018, the Company recognized no interest and penalties.

The Company files a consolidated tax return in the U.S. federal jurisdiction and with the state of California and has a tax sharing agreement with the Bank. The Company is subject to U.S. federal and state income tax examinations by tax authorities for years beginning 2015.

Comprehensive Income: Changes in unrealized gains and losses on available-for-sale securities are the only component of accumulated other comprehensive income for the Company.

Fair Value Measurement: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets, that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as 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.

Level 3 - Significant unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing an asset or a liability.

See Note 15 for more information and disclosures relating to the Company's fair value measurements.

Financial Instruments: In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 12. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per Share (EPS): Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share.

Stock-Based Compensation: The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period that an employee is required to provide services in exchange for the award, generally the vesting period. See Note 13 for additional information on the Company's stock option plan.

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

Servicing Rights: The Company sells or transfers loans, including the guaranteed portion of various government agencies' loans (with servicing retained) for cash proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Company records an asset representing the right to service a loan for others when it sells a loan and retains the servicing rights. The carrying value of the loan is allocated between the loan and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and estimated prepayment rates. Servicing rights are included in other assets on the consolidated balance sheets.

The servicing rights are initially measured at fair value and amortized in proportion to and over the period of the estimated net servicing income assuming prepayments. Additionally, management assesses the servicing rights for impairment as of each financial reporting date. For purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds, and market discount rates. Any impairment is measured as the amount by which the carrying value of servicing rights for a stratum exceeds its fair value. The carrying value of servicing rights at December 31, 2019 and 2018 were $100,296 and $147,773, respectively. No impairment charges were recorded for the years ended December 31, 2019 or 2018 related to servicing assets.

Reclassifications: Certain reclassifications have been made to the prior year consolidated financial statements to conform to the classifications used in 2019. Reclassifications had no effect on prior year net income or shareholders' equity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards:

On January 1, 2019, the Company adopted ASU 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. We adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry-over of historical lease determination and lease classification conclusions
- Carry-over of historical initial direct cost balances for existing leases
- Accounting for leases and non-lease components in contracts in which the Company is a lessee as a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $978,708, and operating lease liabilities of $1,001,361 as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 5 – Leases.

Newly Issued Not Yet Effective Accounting Standards:

FASB Accounting Standards Update (ASU) 2016-13 - *Measurement of Credit Losses on Financial Instruments (Subtopic 326)*: *Financial Instruments - Credit Losses,* commonly referred to as "CECL," was issued June 2016. The provisions of the update eliminate the probable initial recognition threshold under current GAAP which requires reserves to be based on an incurred loss methodology. Under CECL, reserves required for financial assets measured at amortized cost will reflect an organization's estimate of all expected credit losses over the contractual term of the financial asset and thereby require the use of reasonable and supportable forecasts to estimate future credit losses. Because CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to held to maturity ("HTM") debt securities. Under the provisions of the update, credit losses recognized on available for sale ("AFS") debt securities will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans, with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Under current GAAP a purchased loan's contractual balance is adjusted to fair value through a credit discount and no reserve is recorded on the purchased loan upon acquisition. Since under CECL reserves will be established for purchased loans at the time of acquisition, the accounting for purchased loans is made more comparable to the accounting for originated loans. Finally, increased disclosure requirements under CECL require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. The FASB expects that the evaluation of underwriting standards and credit quality trends by financial statement users will be enhanced with the additional vintage disclosures. The Company is required to adopt ASU 2016-13 on January 1, 2023.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has formed an internal task force that is responsible for oversight of the Company's implementation strategy for compliance with provisions of the new standard. The Company has also established a project management governance process to manage the implementation across affected disciplines. An external provider specializing in community bank loss driver and CECL reserving model design as well as other related consulting services has been retained, and we have begun to evaluate potential CECL modeling alternatives. As part of this process, the Company has determined potential loan pool segmentation and sub-segmentation under CECL, as well as begun to evaluate the key economic loss drivers for each segment. While the Company is currently unable to reasonably estimate the impact of adopting this new guidance, management expects the impact of adoption will be significantly influenced by the composition and quality of the Company's loans and investment securities as well as the economic conditions as of the date of adoption. The Company also anticipates significant changes to the processes and procedures for calculating the reserve for credit losses and continues to evaluate the potential impact on our consolidated financial statements.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities are as follows:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. government and agency securities	$ 44,033,294	$ 252,622	$ (154,393)	$ 44,131,523
Mortgage-backed securities	39,752,715	266,010	(113,979)	39,904,746
State and municipal agencies	13,583,980	81,032	(72,012)	13,593,000
	$ 97,369,989	$ 599,664	$ (340,384)	$ 97,629,269

	2019			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Held-to-Maturity:				
U.S. government and agency securities	$ 3,786,236	$ 79,673	$ -	$ 3,865,909
Mortgage-backed securities	7,742,667	244,703	-	7,987,370
	$ 11,528,903	$ 324,376	$ -	$ 11,853,279

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. government and agency securities	$ 50,145,139	$ 184,843	$ (490,536)	$ 49,839,446
Mortgage-backed securities	26,776,144	54,964	(327,426)	26,503,682
State and municipal agencies	7,569,683	47,598	(103,425)	7,513,856
	$ 84,490,966	$ 287,405	$ (921,387)	$ 83,856,984

(Continued)

NOTE 2 – INVESTMENT SECURITIES (Continued)

	2018			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Held-to-Maturity:				
U.S. government and agency securities	$ 922,437	$ 5,203	$ -	$ 927,640
Mortgage-backed securities	11,169,438	113,333	(6,870)	11,275,901
	$ 12,091,875	$ 118,536	$ (6,870)	$ 12,203,541

The amortized cost and estimated fair value of all investment securities as of December 31, 2019 by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized	Estimated Fair Value
Available-for-sale		
Within One Year	$ 507,490	$ 510,480
One to Five Years	1,197,634	1,191,407
Five to Ten Years	2,555,630	2,601,565
Beyond Ten Years	9,323,226	9,289,548
U.S. government and agency securities	44,033,294	44,131,523
Mortgage-backed securities	39,752,715	39,904,746
	$ 97,369,989	$ 97,629,269

	Amortized	Estimated Fair Value
Held-to-maturity		
U.S. government and agency securities	$ 3,786,236	$ 3,865,909
Mortgage-backed securities	7,742,667	7,987,370
	$ 11,528,903	$ 11,853,279

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months are as follows:

	12 months or more		less than 12 Months		Total	
2019	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government and agency securities	$ 9,814,084	$ (117,915)	$ 11,118,888	$ (36,478)	$ 20,932,972	$ (154,393)
Mortgage backed securities	1,053,107	(3,380)	17,285,138	(110,599)	18,338,245	(113,979)
State and municipal agencies	1,503,595	(24,829)	7,464,103	(47,183)	8,967,698	(72,012)
	$ 12,370,786	$ (146,124)	$ 35,868,129	$ (194,260)	$ 48,238,915	$ (340,384)

As of December 31, 2019 no held-to-maturity securities were in a loss position.

(Continued)

NOTE 2 – INVESTMENT SECURITIES (Continued)

	12 months or more		less than 12 Months		Total	
2018	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale						
U.S. government and agency securities	$ 17,437,705	$ (373,987)	$ 16,036,259	$ (116,549)	$ 33,473,964	$ (490,536)
Mortgage backed securities	10,901,696	(247,441)	8,357,598	(79,985)	19,259,294	(327,426)
State and municipal agencies	2,946,329	(92,884)	1,589,515	(10,541)	4,535,844	(103,425)
	$ 31,285,730	$ (714,312)	$ 25,983,372	$ (207,075)	$ 57,269,102	$ (921,387)

	12 months or more		less than 12 Months		Total	
2018	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity						
U.S. government and agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage backed securities	-	-	3,554,902	(6,870)	3,554,902	(6,870)
	$ -	$ -	$ 3,554,902	$ (6,870)	$ 3,554,902	$ (6,870)

Certain investment securities shown in the previous table currently have fair values less than amortized cost and therefore contain unrealized losses. The Company considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than the amortized cost, (b) the financial condition and near-term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments, and (e) general market conditions and the industry-or sector-specific outlook. Management has evaluated all securities at December 31, 2019 and 2018 and has determined that no securities are other than temporarily impaired.

The Company does not have the intent to sell the investments that are impaired, and it is more likely than not that the Company will not be required to sell those investments before recovery of the amortized cost basis. The Company has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any issuer or industry-specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. At December 31, 2019, there were 36 investment securities with a value of $12,370,786 that were in a loss position for more than 12 months. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The proceeds from sales and calls of investment securities and the associated gains and losses are listed below:

	2019	2018	2017
Proceeds	$ 974,011	$ 755,000	$ 7,720,311
Gross gains	11,050	-	137,849
Gross losses	5,188	14,137	18,437

(Continued)

NOTE 2 – INVESTMENT SECURITIES (Continued)

Investment securities carried at approximately $15,265,000 and $8,708,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits or other purposes as permitted or required by law.

At year-end 2019 and 2018, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

NOTE 3 – LOANS

Major classifications of loans are as follows:

	2019	2018
Commercial and industrial	$ 155,922,834	$ 145,503,208
Commercial real estate	145,233,717	101,666,857
Land and construction	17,649,016	17,794,333
Residential real estate	10,289,733	10,349,961
Agriculture	34,130,787	28,080,467
Consumer	8,981	15,273
	363,235,068	303,410,099
Allowance for loan losses	(4,541,693)	(4,048,891)
Deferred loan fees and (costs), net	(1,255)	141,353
Loans, net of allowance	$ 358,692,120	$ 299,502,561

The Company's loan portfolio consists primarily of loans to borrowers within Fresno County, California.

All of the Company's loans are underwritten by evaluating the borrower's character, cash flow, collateral, and credit worthiness and, for commercial and business loans, managerial and operational experience. Underwriting standards are designed to promote relationship banking rather than transactional banking.

Commercial and industrial loans are primarily made to commercial and business enterprises for working capital, equipment purchases, acquisition, partner/management buyout, growth and expansion, and any other permissible purposes. The Company's management examines current and projected cash flow to determine the ability of the borrower to repay its obligations as agreed. Commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flow of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as equipment, accounts receivable, or inventory and may incorporate personal guarantees or personal assets as collateral; however, some loans may be made on an unsecured basis.

(Continued)

NOTE 3 – LOANS (Continued)

Commercial real estate loans are primarily made to owner-users of the property or investors with current tenants in the property. Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and industries operating within the properties. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral type, geography, industry, and risk grade criteria.

Information related to impaired loans as of the year ended consisted of the following:

December 31, 2019	Commercial and Industrial	Commercial Real Estate	Land and Construction	Residential Real Estate	Agriculture	Consumer	Total
Recorded investment in impaired loans:							
With no specific allowance recorded	$ 118,412	$ -	$ -	$ -	$ 500,784	$ -	$ 619,196
With specific allowance recorded	-	-	-	-	-	-	-
Total recorded investment In impaired loans	$ 118,412	$ -	$ -	$ -	$ 500,784	$ -	$ 619,196
Unpaid principal balance of impaired loans:							
With no specific allowance recorded	$ 118,412	$ -	$ -	$ -	$ 500,784	$ -	$ 619,196
With specific allowance recorded	-	-	-	-	-	-	-
Total unpaid principal balance of impaired loans	$ 118,412	$ -	$ -	$ -	$ 500,784	$ -	$ 619,196
Specific allowance	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Average recorded investment in impaired loans during the year	$ 248,516	$ -	$ 105,690	$ -	$ 1,003,348	$ -	$ 1,357,554
Interest income recognized on impaired loans during the year	$ 11,607	$ -	$ -	$ -	$ -	$ -	$ 11,607

(Continued)

NOTE 3 – LOANS (Continued)

December 31, 2018	Commercial and Industrial	Commercial Real Estate	Land and Construction	Residential Real Estate	Agriculture	Consumer	Total
Recorded investment in impaired loans:							
With no specific allowance recorded	$ 129,471	$ -	$ 423,621	$ -	$ 2,505,465	$ -	$ 3,058,557
With specific allowance recorded	-	-	-	-	-	-	-
Total recorded investment In impaired loans	$ 129,471	$ -	$ 423,621	$ -	$ 2,505,465	$ -	$ 3,058,557
Unpaid principal balance of impaired loans:							
With no specific allowance recorded	$ 129,471	$ -	$ 423,621	$ -	$ 2,505,465	$ -	$ 3,058,557
With specific allowance recorded	-	-	-	-	-	-	-
Total unpaid principal balance of impaired loans	$ 129,471	$ -	$ 423,621	$ -	$ 2,505,465	$ -	$ 3,058,557
Specific allowance	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Average recorded investment in impaired loans during the year	$ 48,507	$ -	$ 423,621	$ -	$ 2,505,465	$ -	$ 2,977,593
Interest income recognized on impaired loans during the year	$ 50,051	$ -	$ -	$ -	$ 822	$ -	$ 50,873

The Company has established a loan risk rating system to measure and monitor the quality of the loan portfolio. All loans are assigned a risk rating from the inception of the loan until the loan is paid off. The primary loan grades are as follows:

Loans rated Pass **–** These are loans to borrowers with satisfactory financial support, repayment capacity, and credit strength. Borrowers in this category demonstrate fundamentally sound financial positions, repayment capacity, credit history, and management expertise. Loans in this category must have an identifiable and stable source of repayment and meet the Company's policy regarding debt service coverage ratios. These borrowers are capable of sustaining normal economic, market, or operational setbacks without significant financial impacts. Financial ratios and trends are acceptable. Negative external industry factors are generally not present. The loan may be secured, unsecured, or supported by non-real estate collateral for which the value is more difficult to determine and/or marketability is more uncertain. These loans carry a normal degree of risk. The borrowers have the capacity to perform according to terms; any deviation from historic performance is limited and temporary.

Loans rated Special Mention **–** These are loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. These loans exhibit a more weakened condition than Pass loans, but not to the degree where they would be considered substandard. These loans show definite signs of deterioration or weakness, and the likelihood of correction is somewhat questionable. Weaknesses might include significant earnings decline, collection of accounts receivable is slowing, delayed accounts payable, greater dependency on line usage, and covenants not being met and/or waived for short periods.

(Continued)

NOTE 3 – LOANS (Continued)

Loans rated Substandard **–** These are loans that are inadequately protected by the current sound worth and paying capacity of the borrower or by the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Loans rated Doubtful **–** These are loans that have all the weaknesses inherent in a loan classified as Substandard with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable, and improbable. These loans have a high probability of loss due to significant deterioration in financial condition of the borrower and collateral value pledged, if any. The borrower is unable to demonstrate the ability to strengthen their financial condition within a reasonable time; therefore, close supervision is required and the loan is placed on non-accrual. The risk of loss is measured by an impairment analysis; any loss exposure determined through this analysis is to be charged off.

The following tables summarizes the loan portfolio by credit quality and product and/or collateral type as of December 31, 2019 and 2018:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Grade:					
Commercial & industrial	$ 153,865,835	$ 311,687	$ 1,745,312	$ -	$ 155,922,834
Commercial real estate	143,895,973	1,337,744	-	-	145,233,717
Land & construction	17,649,016	-	-	-	17,649,016
Residential real estate	10,289,733	-	-	-	10,289,733
Agriculture	32,638,190	991,813	500,784	-	34,130,787
Consumer	8,981	-	-	-	8,981
Total	$ 358,347,728	$ 2,641,244	$ 2,246,096	$ -	$ 363,235,068

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Grade:					
Commercial & industrial	$ 144,403,368	$ 321,020	$ 778,820	$ -	$ 145,503,208
Commercial real estate	101,666,857	-	-	-	101,666,857
Land & construction	17,371,575	-	422,758	-	17,794,333
Residential real estate	10,349,961	-	-	-	10,349,961
Agriculture	23,823,514	1,752,311	2,504,642	-	28,080,467
Consumer	15,273	-	-	-	15,273
Total	$ 297,630,548	$ 2,073,331	$ 3,706,220	$ -	$ 303,410,099

Year-end non-accrual loans, segregated by class, are as follows:

	2019	2018
Commercial and industrial	$ 118,412	$ 292,670
Commercial real estate	-	-
Land and construction	-	422,758
Residential real estate	-	-
Agriculture	500,784	2,504,642
Consumer	-	-
	$ 619,196	$ 3,220,070

(Continued)

NOTE 3 – LOANS (Continued)

The following table is an aging analysis of loans, segregated by class of loans, as of December 31, 2019:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial & Industrial	$ 6,168	$ 314,224	$ 118,412	$ 438,804	$ 155,484,030	$ 155,922,834	$ -
Commercial Real Estate	114,293	-	-	114,293	145,119,424	145,233,717	-
Land & Construction	-	-	-	-	17,649,016	17,649,016	-
Residential Real Estate	-	-	-	-	10,289,733	10,289,733	-
Agriculture	-	-	500,784	500,784	33,630,003	34,130,787	-
Consumer	-	-	-	-	8,981	8,981	-
Total	$ 120,461	$ 314,224	$ 619,196	$ 1,053,881	$ 362,181,187	$ 363,235,068	$ -

The following table is an aging analysis of loans, segregated by class of loans, as of December 31, 2018:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial & Industrial	$ 278,636	$ 129,472	$ 163,198	$ 571,306	$ 144,931,902	$ 145,503,208	$ -
Commercial Real Estate	118,082	-	-	118,082	101,548,775	101,666,857	-
Land & Construction	-	-	422,758	422,758	17,371,575	17,794,333	-
Residential Real Estate	-	-	-	-	10,349,961	10,349,961	-
Agriculture	-	-	2,504,642	2,504,642	25,575,825	28,080,467	-
Consumer	-	-	-	-	15,273	15,273	-
Total	$ 396,718	$ 129,472	$ 3,090,598	$ 3,616,788	$ 299,793,311	$ 303,410,099	$ -

As of December 31, 2019, the Company has a recorded investment in troubled debt restructurings of $500,784. There was one modification made during the period ended December 31, 2019 that was considered a troubled debt restructuring. There were no troubled debt restructurings as of December 31, 2018 or 2017. The Company has evaluated the outstanding debt and has not allocated any specific allowance for this loan at December 31, 2019 and has not committed to lend additional amounts to the borrower.

The modification of the terms of the agriculture loan performed during the year ended December 31, 2019, included a change in the payment amount, interest rate and an extension of the maturity date. The extension was for one year. The loan had a pre-modification and post-modification outstanding recorded investment of $500,874. There were no payment defaults on troubled debt restructurings within 12 months following the modification during the year ended December 31, 2019.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

(Continued)

NOTE 3 – LOANS (Continued)

The following table summarizes the Company's allowance for loan losses for the year ended December 31, 2019 by loan product and collateral type:

	Commercial and Industrial	Commercial Real Estate	Land and Construction	Residential Real Estate	Agriculture	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,684,885	$ 862,017	$ 129,062	$ 38,304	$ 88,524	$ 70	$ 246,029	$ 4,048,891
Charge-offs	(163,198)	-	-	-	-	-	-	(163,198)
Recoveries	-	-	-	-	-	11,000	-	11,000
Provision	(306,575)	707,684	93,918	4,270	(77,599)	(11,042)	234,344	645,000
Ending balance	$ 2,215,112	$ 1,569,701	$ 222,980	$ 42,574	$ 10,925	$ 28	$ 480,373	$ 4,541,693
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	2,215,112	1,569,701	222,980	42,574	10,925	28	480,373	4,541,693
Ending Balance	$ 2,215,112	$ 1,569,701	$ 222,980	$ 42,574	$ 10,925	$ 28	$ 480,373	$ 4,541,693
Loans:								
Individually evaluated for impairment	$ 118,412	$ -	$ -	$ -	$ 500,784	$ -	$ -	$ 619,196
Collectively evaluated for impairment	155,804,422	145,233,717	17,649,016	10,289,733	33,630,003	8,981	-	362,615,872
Ending balance	$155,922,834	$145,233,717	$ 17,649,016	$ 10,289,733	$ 34,130,787	$ 8,981	$ -	$363,235,068

(Continued)

NOTE 3 – LOANS (Continued)

The following table summarizes the Company's allowance for loan losses for the year ended December 31, 2018 by loan product and collateral type:

	Commercial and Industrial	Commercial Real Estate	Land and Construction	Residential Real Estate	Agriculture	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 1,825,936	$ 450,949	$ 187,656	$ 92,828	$ 31,122	$ 54	$ 774,907	$ 3,363,452
Charge-offs	(271,561)	-	-	-	-	-	-	(271,561)
Recoveries	-	-	-	-	-	7,000	-	7,000
Provision	1,130,510	411,068	(58,594)	(54,524)	57,402	(6,984)	(528,878)	950,000
Ending balance	$ 2,684,885	$ 862,017	$ 129,062	$ 38,304	$ 88,524	$ 70	$ 246,029	$ 4,048,891
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	2,684,885	862,017	129,062	38,304	88,524	70	246,029	4,048,891
Ending Balance	$ 2,684,885	$ 862,017	$ 129,062	$ 38,304	$ 88,524	$ 70	$ 246,029	$ 4,048,891
Loans:								
Individually evaluated for impairment	$ 129,471	$ -	$ 423,621	$ -	$ 2,505,465	$ -	$ -	$ 3,058,557
Collectively evaluated for impairment	145,373,737	101,666,857	17,370,712	10,349,961	25,575,002	15,273	-	300,351,542
Ending balance	$145,503,208	$101,666,857	$ 17,794,333	$ 10,349,961	$ 28,080,467	$ 15,273	$ -	$303,410,099

NOTE 3 – LOANS (Continued)

The following table summarizes the Company's allowance for loan losses for the year ended December 31, 2017 by loan product and collateral type:

	Commercial and Industrial	Commercial Real Estate	Land and Construction	Residential Real Estate	Agriculture	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 1,881,520	$ 457,384	$ 229,849	$ 70,510	$ 116,855	$ 70	$ 124,035	$ 2,880,223
Charge-offs	(368,038)	-	-	-	-	-	-	(368,038)
Recoveries	26,267	-	-	-	-	-	-	26,267
Provision	286,187	(6,435)	(42,193)	22,318	(85,733)	(16)	650,872	825,000
Ending balance	$ 1,825,936	$ 450,949	$ 187,656	$ 92,828	$ 31,122	$ 54	$ 774,907	$ 3,363,452
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	1,825,936	450,949	187,656	92,828	31,122	54	774,907	3,363,452
Ending Balance	$ 1,825,936	$ 450,949	$ 187,656	$ 92,828	$ 31,122	$ 54	$ 774,907	$ 3,363,452
Loans:								
Individually evaluated for impairment	$ -	$ -	$ 422,758	$ -	$ 2,506,941	$ -	$ -	$ 2,929,699
Collectively evaluated for impairment	133,928,596	76,306,248	17,692,413	14,224,548	18,778,189	9,904	-	260,939,898
Ending balance	$133,928,596	$ 76,306,248	$ 18,115,171	$ 14,224,548	$ 21,285,130	$ 9,904	$ -	$263,869,597

(Continued)

NOTE 4 – PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows:

	2019	2018
Leasehold improvements	$ 953,603	$ 949,481
Furniture, fixtures, and equipment	771,826	748,424
Computer equipment	693,984	602,590
	2,419,413	2,300,495
Less accumulated depreciation	(2,190,859)	(2,014,549)
	$ 228,554	$ 285,946

Depreciation expense amounted to $176,310, $158,140, and $113,773 for the years ending December 31, 2019, 2018, and 2017, respectively.

NOTE 5 – LEASES

The Company leases its offices under noncancelable operating leases with terms extending through 2022. Leases with an initial term of twelve months or less are not recorded on the balance sheet. Operating lease cost is comprised of lease expense recognized on a straight-line basis, the amortization of the right-of-use asset and the implicit interest accreted on the operating lease liability. Operating lease cost is included in occupancy and equipment expense on our consolidated statements of income. We evaluate the lease term by assuming the exercise of options to the extent that they are reasonably assured and those option periods covered by an option to terminate the lease, if deemed not reasonably certain to be exercised. The lease term is used to determine the straight-line expense and limits the depreciable life of any related leasehold improvements. Certain leases require us to pay real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises. These expenses are classified in occupancy and equipment expense on our consolidated statements of income, but are not included in operating lease cost below. We calculate the lease liability using a discount rate that represents our incremental borrowing rate at the lease commencement date.

At December 31, 2019, the future undiscounted lease payments under non-cancellable operating lease commitments for the Company's offices were as follows:

2020	$ 514,679
2021	116,881
2022	23,152
2023	-
2024	-
Thereafter	-
Total undiscounted lease payment	654,712
Less: imputed interest	21,477
Net lease liabilities	$ 633,265

(Continued)

NOTE 5 – LEASES (Continued)

The table below summarizes the total lease cost for the twelve months ended December 31, 2019:

Operating lease cost	$ 476,652
Variable lease cost	24,774
	$ 501,426

The table below summarizes other information related to the Company's operating leases for the twelve months ending December 31, 2019:

Weighted average remaining lease term, in years	1.41
Weighted average discount rate	4.50%

The table below shows operating lease right-of-use assets and operating lease liabilities, and the associated balance sheet classifications, as of December 31, 2019:

	Balance Sheet Classification	2019
Operating lease right-of-use assets	Interest receivable and other assets	$ 615,585
Operating lease liabilities	Interest payable and other liabilities	633,265

Total lease cost included in occupancy and equipment was $501,426, $506,030, and $427,293 for the years ended December 31, 2019, 2018, and 2017, respectively.

NOTE 6 – DEPOSITS

Customer deposits were as follows:

	2019	2018
Non-interest-bearing demand	$ 307,530,614	$ 263,817,752
Savings, NOW, and money market accounts	136,356,551	124,434,441
Time deposits under $250,000	21,767,182	22,269,747
Time deposits $250,000 and over	17,219,110	13,823,584
	$ 482,873,457	$ 424,345,524

(Continued)

NOTE 6 – DEPOSITS (Continued)

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	$ 32,366,512
2021	5,406,105
2022	367,787
2023	428,442
2024	417,446
Thereafter	-
	$ 38,986,292

NOTE 7 – BORROWING ARRANGEMENTS

The Company may borrow up to an aggregate of $29,500,000 overnight on an unsecured basis from three correspondent banks. The Company may also borrow up to approximately $135,000,000 from the Federal Home Loan Bank of San Francisco, subject to providing collateral and fulfilling other conditions of the credit facility. The Company has pledged investment securities of approximately $15,635,000 for the credit facility at Federal Home Loan Bank of San Francisco. The Company may also borrow from the Federal Reserve Bank of San Francisco, subject to fulfilling other conditions of the credit facility and providing collateral. As of December 2019, and 2018, no amounts were outstanding under these arrangements.

The Company has a line of credit with TIB under which it can borrow up to $7,500,000 for general corporate purposes. The line is secured by a pledge of the underlying stock the Company holds of Fresno First Bank. As of December 31, 2019, there was no amount outstanding under this arrangement.

NOTE 8 – EMPLOYEE BENEFITS

The Company sponsors an employee stock ownership plan (ESOP) for eligible employees. Eligibility begins after an employee has attained the age of 21 and completed one year of service, as defined in the ESOP documents. Under the ESOP, the Company contributes a discretionary amount to the ESOP for the purchase of the Company's stock, to be held in trust for each participant to be distributed later in accordance with the ESOP. For the years ended December 31, 2019, 2018, and 2017 contributions to the ESOP were $420,000, $310,000, and $343,014, respectively. The ESOP held 164,789 and 136,176 shares of common stock as of December 31, 2019 and 2018, respectively, and there were no unearned shares of common stock held by the ESOP at December 31, 2019 and 2018.

The Company sponsors a 401(k) plan for the benefit of its employees. The Company can match employee contributions and make additional contributions annually as determined by the Board of Directors. The Company made no contributions for the years ended December 31, 2019, 2018, and 2017.

(Continued)

NOTE 8 – EMPLOYEE BENEFITS (Continued)

The Board of Directors approved a salary continuation plan for certain executives during 2017. Under the Plan the Company is obligated to provide executives with annual benefits after retirement. The estimated present value of these future benefits is accrued from the effective date of the plan and is expensed over the years of service. The expense recognized under this plan was $306,706, $284,120, and $89,911 for the years ended December 31, 2019, 2018 and 2017, respectively. Accrued compensation payable under the salary continuations plan totaled $680,737, $374,031 and $89,911 at December 31, 2019, 2018 and 2017 and is included in interest payable and other liabilities on the Company's balance sheet.

NOTE 9 – INCOME TAXES

The provision for income taxes for the years ended December 31 consists of the following:

	2019	2018	2017
Current			
Federal	$ 2,391,112	$ 1,659,081	$ 1,862,165
State	1,416,438	914,424	730,961
	3,807,550	2,573,505	2,593,126
Deferred			
Federal	(270,779)	(258,603)	65,373
State	(103,482)	(134,892)	(32,603)
Remeasurement of deferred tax assets and deferred tax liabilities at reduced federal corporate tax rate	-	-	330,712
	(374,261)	(393,495)	363,482
Provision	$ 3,433,289	$ 2,180,010	$ 2,956,608

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law. Among other things, the Act reduces our corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, we are required to re-measure, through income tax expense, our deferred tax assets and liabilities using the enacted rate at which we expect them to be recovered or settled. The re-measurement of our net deferred tax asset resulted in additional income tax expense of $330,712 for the year ended December 31, 2017.

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition.

(Continued)

NOTE 9 – INCOME TAXES (Continued)

The following is a summary of the components of the net deferred tax asset accounts included in interest receivable and other assets in the accompanying consolidated balance sheets at December 31:

	2019	2018
Deferred tax assets:		
Pre-operating expenses	$ 12,293	$ 24,587
Depreciation	133,442	121,635
Allowance for loan losses	972,595	819,645
Stock-based compensation	71,352	95,128
Deferred compensation	201,250	110,577
State tax deferral	296,955	195,717
Unrealized losses on available-for-sale securities	-	187,428
Non-accrual loan interest	255	-
Lease Liability	187,216	-
Other	233,884	128,287
	2,109,241	1,683,004
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	(76,653)	-
Lease financing receivable	(154,591)	(151,159)
Right-of-use asset	(181,989)	-
Other	(146,708)	(92,724)
	(559,940)	(243,883)
Net deferred income tax asset	$ 1,549,301	$ 1,439,121

The Company is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ended December 31, 2018, 2017, and 2016 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2018, 2017, 2016, and 2015, are open to audit by state authorities. As of December 31, 2019, the Company does not have any unrecognized tax benefits. The Company does not expect unrecognized tax benefits to significantly increase or decrease within the next 12 months.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company has granted loans to certain directors and their related interests with which they are associated. The balance of these loans outstanding was approximately $730,000 and $836,000 at December 31, 2019 and 2018, respectively.

Deposits from certain directors, officers, and their related interests with which they are associated, held by the Company at December 31, 2019 and 2018, amounted to approximately $4,791,000 and $5,597,000, respectively.

(Continued)

NOTE 11 – EARNINGS PER SHARE (EPS)

Earnings per share for the years ended December 31 were computed as follows:

	2019	2018	2017
Basic earnings per share:			
Net income available to common shareholders	$ 9,201,358	$ 6,249,545	$ 3,683,698
Weighted average common shares outstanding	2,927,317	2,855,761	2,816,454
Basic earnings per share	$ 3.14	$ 2.19	$ 1.31
Diluted earnings per share:			
Net income available to common shareholders, diluted	$ 9,201,358	$ 6,249,545	$ 3,683,698
Weighted average common shares outstanding	2,927,317	2,855,761	2,816,454
Effect of dilutive stock options	54,999	64,975	55,079
Adjusted weighted average common shares outstanding, diluted	2,982,316	2,920,736	2,871,533
Diluted earnings per share	$ 3.09	$ 2.14	$ 1.28

At December 31, 2019, 2018 and 2017, there were 20,841, 42,561, and 52,957 stock options, respectively, that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per share.

NOTE 12– COMMITMENTS

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Company's consolidated financial statements.

The Company's exposure to loan loss in the event of non-performance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans reflected in the consolidated financial statements.

NOTE 12 – COMMITMENTS (Continued)

As of December 31, 2019, and 2018, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2019	2018
Commitments to extend credit	$ 94,703,950	$ 77,433,577
Letters of credit	999,771	1,005,658
	$ 95,703,721	$ 78,439,235

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 amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

NOTE 13 – STOCK-BASED COMPENSATION

The Company's 2005 Equity Based Compensation Plan (the 2005 Plan) was approved by its shareholders in February 2006. Under the terms of the 2005 Plan, officers and key employees may be granted both non-qualified, incentive stock options and restricted stock awards, and directors, who are not also an officer or employee, may only be granted non-qualified stock options and restricted stock awards. The 2005 Plan provides for a maximum number of shares that may be awarded to eligible employees and directors not to exceed 495,000 shares. In July 2012, the shareholders approved an additional 183,000 shares to be added to the Plan increasing the total to 678,000 shares. In July 2015 the Shareholders approved the 2015 Equity Based Compensation Plan (the 2015 Plan) to replace the 2005 Plan which was due to expire at the end of 10 years. Upon approval, the remaining unallocated shares in the 2005 Plan were transferred into the 2015 Plan for future grants. . In May 2019, the shareholders approved the Directors Equity Compensation Plan, which added an additional 75,000 shares available to be granted beyond those already approved under the 2005 and 2015 plans. There are 849,782 shares authorized under the plans. The total number of shares authorized has been retroactively adjusted for the effect of stock dividends. Stock options are granted at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and all equity-based awards generally vest over three years. The 2015 Plan provides for accelerated vesting if there is a change of control, as defined in the plan. The Company recognized stock-based compensation cost of $536,695, $418,026, and $383,920 in 2019, 2018, and 2017, respectively.

Since the Company has a limited amount of historical stock activity, the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Company does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk-free rate of return reflects the grant date interest rate offered for U.S. Treasury bonds over the expected term of the options.

(Continued)

NOTE 13 – STOCK-BASED COMPENSATION (Continued)

A summary of the status of stock options that have been granted by the Company as of December 31, 2019, and changes during the year ending thereon, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	107,536	$ 8.95	3.1 years	$ 1,166,281
Granted	-	$ -		
Exercised	(23,126)	$ 10.94		
Forfeited, expired, or returned to Plan through cashless exercise	(8,570)	$ 9.48		
Outstanding at end of year	75,840	$ 8.84	2.2 years	$ 1,509,834
Options exercisable	75,840	$ 8.84	2.2 years	$ 1,509,834

As of December 31, 2019, there was no unrecognized compensation cost related to the outstanding stock options.

Share Award Plan: The Equity Compensation Plan provides for the issuance of restricted shares to directors and officers. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The fair value of the stock was determined based on the closing price listed for the Company's stock on the date of grant.

A summary of changes in the Company's non-vested restricted share grants for the year follows:

Non-vested at January 1, 2019	47,161	$ 16.22
Granted	25,798	23.20
Vested	(29,584)	16.40
Forfeited	(200)	19.95
Non-vested at December 31, 2019	43,175	$ 20.25

As of December 31, 2019, there was approximately $533,118 of total unrecognized compensation cost related to the outstanding restricted stock grants that will be recognized over a weighted average period of 1.3 years.

NOTE 14 – SHAREHOLDERS' EQUITY

Regulatory Capital:

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2019, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2019 and 2018, the most recent regulatory notifications categorized the Bank as 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 institution's category.

Actual and required capital amounts and ratios, excluding the capital conservation buffer, are presented below (dollar amounts in thousands):

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019:						
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 50,691	14.9%	$ 15,309	>4.5%	$ 22,114	>6.5%
Total Capital (to Risk-Weighted Assets)	$ 54,961	16.1%	$ 27,310	>8.0%	$ 34,137	>10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 50,691	14.9%	$ 20,412	>6.0%	$ 27,217	>8.0%
Tier I Capital (to Average Assets)	$ 50,691	9.4%	$ 21,571	>4.0%	$ 26,963	>5.0%
December 31, 2018:						
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 40,918	15.3%	$ 12,000	>4.5%	$ 17,333	>6.5%
Total Capital (to Risk-Weighted Assets)	$ 44,260	16.6%	$ 21,333	>8.0%	$ 26,667	>10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 40,918	15.3%	$ 16,000	>6.0%	$ 21,333	>8.0%
Tier I Capital (to Average Assets)	$ 40,918	8.7%	$ 18,732	>4.0%	$ 23,415	>5.0%

(Continued)

NOTE 14 – SHAREHOLDERS' EQUITY (Continued)

Dividends:

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lessor of the bank's undivided profits or the bank's net income for its last three fiscal years less any distributions made to shareholders during the same period without the approval in advance of the Commissioner of the California Department of Business Oversight.

Common Stock:

On February 12, 2019, the Company issued 34,100 shares of its common stock totaling $731,104 as the Company's ESOP contribution for 2019.

NOTE 15 – FAIR VALUE

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities – The fair values of securities available-for-sale are determined matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities, but rather by relying on the securities' relationship to other benchmark securities (Level 2).

Loans Held for Sale – The Company does not record loans held for sale at fair value on a recurring basis. Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics (Level 2).

Collateral-Dependent Impaired Loans – The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect: (1) partial write-downs, through charge offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral, or (2) the full charge off of the loan carrying value. In some cases, the properties for which market quotes or appraisal values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. There were no collateral-dependent impaired loans measured at fair value at December 31, 2019 and 2018.

(Continued)

NOTE 15 – FAIR VALUE (Continued)

The following table summarizes the Company's assets that were measured at fair value on a recurring basis at December 31, 2019:

Description of Assets	December 31, 2019	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
U.S. government and agency securities	$ 44,131,523	$ -	$ 44,131,523	$ -
Mortgage-backed securities	39,904,746	-	39,904,746	-
State and municipal agencies	13,593,000	-	13,593,000	-
Total	$ 97,629,269	$ -	$ 97,629,269	$ -

The following table summarizes the Company's assets that were measured at fair value on a recurring basis at December 31, 2018:

Description of Assets	December 31, 2018	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
U.S. government and agency securities	$ 49,839,446	$ -	$ 49,839,446	$ -
Mortgage-backed securities	26,503,682	-	26,503,682	-
State and municipal agencies	7,513,856	-	7,513,856	-
Total	$ 83,856,984	$ -	$ 83,856,984	$ -

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

(Continued)

NOTE 15 – FAIR VALUE (Continued)

The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Financial Assets – The carrying amounts of cash, short-term investments due from customers on acceptances, and bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits with banks. The fair values of securities available for sale are generally based on matric pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities, but rather by relying on the securities' relationship to other benchmark securities. The fair value of variable loans that reprice frequently and that have experienced no significant change in credit risk is based on carrying values. The fair values for all other loans are estimated using discounted cash flow analyses and interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. Loans are generally expected to be held to maturity and any unrealized gains or losses are not expected to be realized. Fair value for correspondent bank stock is not practical to determine due to restrictions on transferability. Fair value for interest receivable and SBIC investments approximates carrying value. The estimated fair values of financial instruments disclosed below follow the guidance in ASU 2016-01 which prescribes an "exit price" approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity, and marketability factors.

Financial Liabilities – The carrying amounts of deposit liabilities payable on demand, commercial paper, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair value of interest payable approximates its carrying amount.

Off-Balance Sheet Financial Instruments – The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the credit standing of the counterparties. The fair value of the commitments is not material.

The carrying amounts and estimated fair value of financial instruments not carried at fair value at December 31 are summarized as follows (in thousands):

	2019			2018		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and cash equivalents	$ 31,638	$ 31,638	Level 1	$ 42,381	$ 42,381	Level 1
Certificates of deposit	9,914	9,914	Level 2	10,906	10,906	Level 2
Securities held-to-maturity	11,529	11,853	Level 2	12,092	12,204	Level 2
Loans held for sale	13,201	13,201	Level 3	4,081	4,081	Level 3
Loans, net	358,692	352,877	Level 3	299,503	295,939	Level 3
SBIC investments	473	473	Level 2	374	374	Level 2
Interest receivable	2,457	2,457	Level 2	1,939	1,939	Level 2
Financial liabilities:						
Deposits	482,873	450,902	Level 2	424,346	387,220	Level 2
Interest payable	40	40	Level 2	25	25	Level 2