2022 ANNUAL REPORT

To Our Fellow Shareholders:

From the very beginning of Fresno First Bank, we understood that we must deliver value to our shareholders. In fact, maximizing long-term shareholder value is a part of our board's mission statement. We started 2022, moving out of the COVID economy to one of rampant inflation and rising interest rates. This presented challenges our bank has never faced before, and we are happy to report that our team met those challenges head on, resulting in a stellar year!

Our branch-lite, technology-opportunistic, customer-centric business model yielded the highest returns ever in the bank's history. We ended 2022 with a Return on Average Assets of 2.45% and a Return on Average Equity of 34.86% making us one of the highest performing banks in the country. Of course, the most important piece of that model is our people. We continue to seek and attract the best talent in the business. This level of talent, enabled us to deliver our services in an efficient and safe manner, resulting in another record year of adding value to the company. Therefore, it is with a great sense of gratitude that we present our 2022 Annual Report.

We are pleased to announce that we had record profits in 2022, with earnings of $26.52 million, an increase of 28% over 2021. Our asset growth was strong, ending the year at $1.3 billion reflecting a 21% growth rate over 2021. We accomplished this growth by expanding our customer base through our various acquisition channels, as well as benefiting from the increasing interest rate environment. The key to success was our team's proactive work with our clients to meet their needs as interest rates continued to rise. In addition, non-interest income increased 34% for the year ended 2022. This increase was driven by the high returns in our merchant-services business.

We have built a strong franchise with a high level of noninterest-bearing deposits, a diversified loan portfolio, and a high level of capital. As of December 31, 2022, the Bank had a 16.38% total capital ratio, a 15.36% Tier 1 capital ratio, a 15.36% common equity Tier 1 capital ratio, and an 11.68% Tier 1 leverage ratio, all of which exceeded "well-capitalized" levels. We believe the combination of our core deposit franchise, conservative lending, strong capital levels, and consistent non-interest income will continue to add value to our franchise in the current environment and in the future. The combination of our core deposit franchise, conservative lending and consistent non-interest income will continue to add value to our franchise in the future.

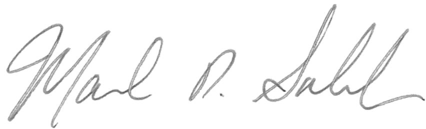
The year saw significant changes in our leadership as well. Two of our most valuable long-term team members retired: Corporate Secretary Debbie Cameron, and CFO Steve Canfield. Debbie was with us from the beginning over 17 years ago, and Steve was with us for over 15 years. We cannot thank them enough for their invaluable contributions to our company and we wish them both the very best. We also added a new director to the board, Heather Schwarm. Her expertise and experience are critical for our stage of growth, and we look forward to her contributions as we continue to build our franchise.

Member FDIC
EQUAL HOUSING LENDER

By the time you read this letter, we will be full speed ahead in our rebranding project. Rebranding from Fresno First Bank to FFB Bank is key to our strategy which allows us to reach far across the state and, in fact, across the nation to enable our franchise to take advantage of market opportunities. We see this as an exciting new chapter in our evolution. While the brand may change to FFB, our core values remain deeply rooted in the Fresno area and San Joaquin Valley, which has been so good to us.

As we progress through 2023, we believe we are in a better position than ever to face the challenges ahead and capitalize on the opportunities along the way. Fundamental to our success is the ownership culture that will continue stronger than ever at **FFB.** So, we end this letter reaffirming our commitment to you, our shareholders, to do our best to build shareholder value. As always, we sincerely thank you for your continued support.

Sincerely,



Mark D. Saleh, Chairman of the Board
(559) 905-1104

Steve Miller, President & CEO
(818) 318-9716

Member FDIC
EQUAL HOUSING LENDER

COMMUNITIES FIRST FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022, and 2021

COMMUNITIES FIRST FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022, and 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Communities First Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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, 2022, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Communities First Financial Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Communities First Financial Corporation's internal control over financial reporting as of December 31, 2022, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 23, 2023 expressed an unmodified opinion.

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 Communities First Financial Corporation 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

(Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Communities First Financial Corporation'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.

Crowe LLP

Crowe LLP

Sacramento, California
March 23, 2023

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
For the Years Ended December 31, 2022 and 2021
(Dollar amounts in thousands except per share data)

	2022	2021
ASSETS		
Cash and due from banks	$ 19,683	$ 14,764
Interest-bearing deposits in banks	37,291	22,016
Total cash and cash equivalents	56,974	36,780
Certificates of deposit	2,983	1,490
Debt securities available-for-sale	340,360	287,946
Debt securities held-to-maturity (fair value $3,362 and $4,254 as of December 31, 2022 and 2021, respectively)	3,483	4,023
Loans held for sale	11,063	3,811
Loans, net of allowance (allowance of $9,914 and $9,785 as of December 31, 2022 and 2021, respectively)	832,639	713,487
SBIC investments and correspondent bank stock, at cost	5,554	4,132
Cash surrender value of life insurance	8,592	8,397
Premises and equipment, net	404	294
Interest receivable and other assets	32,412	19,743
Total assets	$ 1,294,464	$ 1,080,103
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 1,081,227	$ 936,548
Other borrowed funds	65,000	-
Long term debt (net of issuance cost $559 and $717 as of December 31, 2022 and 2021, respectively)	39,441	39,283
Interest payable and other liabilities	16,438	14,980
Total liabilities	1,202,106	990,811
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock - 50,000,000 shares authorized, no par value: 3,139,880 and 3,070,307 shares issued and outstanding in 2022 and 2021, respectively	34,369	32,486
Retained earnings	80,469	53,948
Accumulated other comprehensive (loss) income	(22,480)	2,858
Total shareholders' equity	92,358	89,292
Total liabilities and shareholders' equity	$ 1,294,464	$ 1,080,103

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2022, 2021 and 2020
(Dollar amounts in thousands except per share data)

	2022	2021	2020
Interest Income:			
Loans, including fees	$ 39,666	$ 34,527	$ 24,662
Taxable investment securities	8,276	5,067	2,771
Tax-exempt investment securities	2,175	1,621	853
Federal funds sold and other	1,027	342	449
Total interest income	51,144	41,557	28,735
Interest Expense			
Savings deposits, NOW, and money market accounts	817	600	585
Time deposits	251	258	378
Other borrowings	132	4	33
Long term debt	1,858	1,858	296
Total interest expense	3,058	2,720	1,292
Net interest income	48,086	38,837	27,443
Provision for loan losses	300	2,000	3,300
Net interest income after provision for loan losses	47,786	36,837	24,143
Non-interest income:			
Service charges on deposits	2,756	2,080	938
Merchant services	8,435	4,000	3,959
(Loss) gain on available-for-sale Securities	(305)	295	60
Gain on sale of loans	1,613	2,984	1,491
Income from life insurance	195	199	207
Other	645	414	418
Total non-interest income	13,339	9,972	7,073
Non-interest expenses:			
Salaries and employee benefits	15,341	11,516	9,696
Occupancy and equipment	1,124	827	823
Regulatory assessments	433	277	300
Data processing fees	1,625	899	815
Professional fees	1,515	1,258	1,259
Marketing and business promotion	954	781	671
Director fees and stock-based compensation	499	414	385
Other expenses	3,566	2,619	1,559
Total non-interest expenses	25,057	18,591	15,508
Income before income taxes	36,068	28,218	15,708
Provision for income taxes	9,547	7,691	4,196
Net income	$ 26,521	$ 20,527	$ 11,512
Net income per share - basic	$ 8.51	$ 6.69	$ 3.84
Net income per share - diluted	$ 8.44	$ 6.62	$ 3.79

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2022, 2021 and 2020
(Dollar amounts in thousands except per share data)

	2022	2021	2020
Net income	$ 26,521	$ 20,527	$ 11,512
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized holding (losses) gains during the year	(36,276)	(1,821)	5,662
Reclassification adjustment for losses (gains) realized in net income from debt securities	305	17	(60)
Net unrealized (losses) gains	(35,971)	(1,804)	5,602
Income tax benefit (expense)	10,633	533	(1,656)
Other comprehensive (loss) income	(25,338)	(1,271)	3,946
Total comprehensive income	$ 1,183	$ 19,256	$ 15,458

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, 2022, 2021 and 2020
(Dollar amounts in thousands except per share data)

	Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Earnings	Income (Loss)	Equity
Balances, January 1, 2020	2,940,996	$ 29,869	$ 21,909	$ 183	$ 51,961
Issuance of common stock	14,900	433	-	-	433
Stock based compensation	-	674	-	-	674
Exercise of stock options	18,202	22	-	-	22
Restricted stock issuance	30,233	-	-	-	-
Net income	-	-	11,512	-	11,512
Other comprehensive income	-	-	-	3,946	3,946
Balances, December 31, 2020	3,004,331	$ 30,998	$ 33,421	$ 4,129	$ 68,548
Issuance of common stock	14,027	456	-	-	456
Stock based compensation	-	1,032	-	-	1,032
Exercise of stock options	7,504	-	-	-	-
Restricted stock issuance	46,995	-	-	-	-
Restricted stock forfeited	(2,550)	-	-	-	-
Net income	-	-	20,527	-	20,527
Other comprehensive loss	-	-	-	(1,271)	(1,271)
Balances, December 31, 2021	3,070,307	$ 32,486	$ 53,948	$ 2,858	$ 89,292
Issuance of common stock	11,525	681	-	-	681
Stock based compensation	-	1,612	-	-	1,612
Exercise of stock options	30,121	(410)	-	-	(410)
Restricted stock issuance	40,966	-	-	-	-
Restricted stock surrendered for tax liability	(12,739)	-	-	-	-
Restricted stock forfeited	(300)	-	-	-	-
Net income	-	-	26,521	-	26,521
Other comprehensive loss	-	-	-	(25,338)	(25,338)
Balances, December 31, 2022	3,139,880	$ 34,369	$ 80,469	$ (22,480)	$ 92,358

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022, 2021 and 2020

	2022	2021	2020
Cash flows from operating activities			
Net income	$ 26,521	$ 20,527	$ 11,512
Adjustments to reconcile net income to net cash From operating activities:			
Depreciation of premises and equipment	198	137	159
Amortization and accretion on securities available for sale, net	1,874	1,487	809
Amortization and accretion on securities held to maturity, net	3	15	44
Provision for loan losses	300	2,000	3,300
Loss (gain) on sale of available-for-sale securities	305	(295)	-
Gain on called held-to-maturity securities	-	-	(60)
Gain on sale of loans held for sale	(1,613)	(2,984)	(1,491)
Loss on disposal or premises and equipment	2	-	-
Proceeds from sale of loans held for sale	62,917	27,172	52,582
Originations of loans held for sale	(68,556)	(27,999)	(37,890)
Stock based compensation expense	1,612	1,032	674
Increase in value of life insurance	(195)	(199)	(207)
Increase in interest receivable	(1,775)	(345)	(2,387)
Increase in interest payable and other liabilities	1,458	8,012	3,410
Increase in other assets	(103)	(9,821)	(3,198)
Net cash provided by operating activities	22,948	18,739	27,257
Cash flow from investing activities			
Purchase of certificates of deposit	(1,743)	(250)	-
Proceeds from maturities of certificates of deposit	-	997	-
Purchase of available-for-sale securities	(124,428)	(96,106)	(139,667)
Proceeds from paydowns or maturities of available-for-sale securities	25,802	19,255	22,874
Proceeds from sale/call of available-for-sale securities	8,312	9,563	3,239
Purchase of held-to-maturity securities	-	(1,500)	-
Proceeds from maturities of held-to-maturity securities	537	3,555	5,452
Net increase in loans	(119,452)	(106,298)	(253,797)
Purchase of SBIC investments and correspondent bank stock	(1,422)	(1,073)	(447)
Purchases of premises and equipment	(310)	(256)	(106)
Net cash used in investing activities	(212,704)	(172,113)	(362,452)
Cash flows from financing activities			
Net increase in demand deposits and savings accounts	156,038	214,750	211,429
(Decrease) increase in time deposits	(11,359)	(4,457)	31,952
Proceeds (repayment) from short term borrowings with the FHLB	65,000	(31,000)	31,000
Proceeds from long term debt, net of issuance cost	-	-	39,126
Net proceeds from exercise of stock options	(410)	-	22
Cash proceeds from issuance of common stock	681	456	433
Net cash provided by financing activities	209,950	179,749	313,962
Net change in cash and cash equivalents	20,194	26,375	(21,233)

See accompanying notes to the consolidated financial statements.

COMMUNITIES FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022, 2021 and 2020

	2022	2021	2020
Cash and cash equivalents, beginning of year	36,780	10,405	31,638
Cash and cash equivalents, end of year	$ 56,974	$ 36,780	$ 10,405
Supplemental disclosures of cash flow information:			
Interest paid	$ 3,001	$ 2,785	$ 1,039
Taxes paid	$ 8,865	$ 6,740	$ 5,400
Operating cash flows from operating leases	$ 565	$ 509	$ 515
Non-cash investing and financing activities:			
Initial recognition of operating lease right-of-use assets	$ 412	$ -	$ -

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, 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. Effective March 13, 2023, the Bank changed its name from Fresno First Bank to FFB Bank.

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. The Bank has an SBA production department and opened a loan production office in Torrance, California in 2020. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events: The Company has evaluated the effects of subsequent events for recognition and disclosure through March 23, 2022, 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, FFB 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.

Risks and Uncertainties: The lack of soundness of other financial institutions or financial market utilities may adversely affect the Company. The Company's ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated because of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial institutions or financial market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and losses of client, creditor and counterparty confidence and could lead to losses or defaults by other financial institutions, or the Company.

Liquidity risk could impair the Company's ability to fund operations and jeopardize its financial condition. Liquidity is essential to the Company's business. The Company relies on a variety of sources to meet its potential liquidity demands. The Company is required to maintain enough liquidity to meet customer loan requests, customer deposit maturities and withdrawals, payments on its debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. A tightening of the credit markets and the inability to obtain adequate funding may negatively affect its liquidity, asset growth and, consequently, earnings capability and capital levels. In addition to any deposit growth, and the sale of loans or investment securities, maturity of investment securities and loan payments, the Company relies from time to time on advances from the FHLB, FRB, unsecured lines of credit, and certain other wholesale funding sources to meet liquidity demands. Liquidity position could be significantly constrained if the Company was unable to access funds from its funding sources.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's access to funding sources, such as through its lines of credit, capital markets offerings, borrowing from the FRB and FHLB, or from other third-parties, in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

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.

As of December 31, 2022, and 2021, 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.

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 commercial and residential 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, commercial and residential 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022, 2021, and 2020 salaries and employee benefits expense totaling $876,000, $1,018,000 and $885,000 respectively, were deferred as loan origination costs.

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 principals 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, 2022 and 2021 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 $3,873,000 and $2,800,000 at December 31, 2022 and 2021, 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, 2022 and 2021. Correspondent bank stock accounts on the consolidated balance sheet include The Independent Bankers Bank (TIB) stock of $225,000 and Pacific Coast Bankers' Bank (PCBB) stock of $400,000 at December 31, 2022 and 2021. TIB and PCBB stock are carried at cost and were not considered impaired as of December 31, 2022 and 2021. The Company has made certain investments in Small Business Development Corporations (SBICs). SBIC investments on the consolidated balance sheet include $1,045,000 and $695,000, at December 31, 2022 and 2021, respectively. These investments are carried at cost and were not considered impaired as of December 31, 2022 and 2021. The Company held stock in Farmer Mac with a balance of at $11,000 and $12,000 as of December 31, 2022 and 2021, respectively and are periodically evaluated for impairment based on the ultimate recovery of the par value.

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 $402,000, $231,000 and $448,000 for the years ended December 31, 2022, 2021, and 2020, respectively.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022 and 2021 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.

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, 2022 and 2021. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2022, 2021, and 2020, the Company recognized no interest and penalties.

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

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.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

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 equity plan.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022 and 2021 were $204,000 and $179,000 respectively. No impairment charges were recorded for the years ended December 31, 2022 or 2021 related to servicing assets.

Investment in Low Income Housing Tax Credit Funds (LIHTC): The Bank has invested in limited partnerships that were formed to develop and operate affordable housing projects for low or moderate income tenants throughout California. The Bank's ownership in each limited partnership is less than two percent. In accordance with ASU No. 2014-01, Investments - Equity Method and Joint Ventures (Topic 323), the Company elected to account for the investments in qualified affordable housing tax credit funds using the proportional amortization method. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized as part of income tax expense (benefit). Each of the partnerships must meet the regulatory minimum requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest. The Company's investment in Low Income Housing Tax Credit Funds is reported in other assets on the consolidated balance sheet.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassification had no effect on prior year net income or shareholders equity.

(Continued)

NOTE 2 – DEBT SECURITIES

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

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. Treasury and federal agency	$ 11,843	$ -	$ (1,297)	$ 10,546
U.S. government sponsored entities and agencies	18,056	119	(389)	17,786
State and political subdivision	139,300	31	(21,198)	118,133
Mortgage backed securities	170,450	96	(6,679)	163,867
Other Domestic Debt	32,626	-	(2,598)	30,028
Total	$ 372,275	$ 246	$ (32,161)	$ 340,360
Held to Maturity:				
U.S. government sponsoted entities and agencies	1,079	-	$ (54)	$ 1,025
Mortgage backed securities	2,404	-	(67)	2,337
Total	$ 3,483	$ -	$ (121)	$ 3,362

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. Treasury and federal agency	$ 11,816	$ 47	$ (107)	$ 11,756
U.S. government sponsoted entities and agencies	26,985	473	(23)	27,435
State and political subdivision	130,361	3,839	(626)	133,574
Mortgage backed securities	91,028	515	(126)	91,417
Other Domestic Debt	23,700	221	(157)	23,764
Total	$ 283,890	$ 5,095	$ (1,039)	$ 287,946
Held to Maturity:				
U.S. government sponsoted entities and agencies	1,440	64	-	1,504
Mortgage backed securities	2,583	167	-	2,750
Total	$ 4,023	$ 231	$ -	$ 4,254

(Continued)

NOTE 2 – DEBT SECURITIES (Continued)

The amortized cost and estimated fair value of all investment securities as of December 31, 2022, 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	$ -	$ -
One to Five Years	12,126	11,253
Five to Ten Years	39,200	35,774
Beyond Ten Years	132,443	111,680
	$ 183,769	$ 158,707
U.S. government and agency securities	18,056	17,786
Mortgage-backed securities	170,450	163,867
	$ 372,275	$ 340,360

	Amortized	Estimated Fair Value
Held-to-maturity		
U.S. government and agency securities	$ 1,079	$ 1,025
Mortgage-backed securities	2,404	2,337
	$ 3,483	$ 3,362

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	
2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Treasury securities	7,142	(815)	3,404	(482)	10,546	(1,297)
U.S. government sponsored entities and agencies	1,547	(49)	5,619	(340)	7,166	(389)
State and political subdivision	27,975	(8,472)	84,780	(12,726)	112,755	(21,198)
Mortgage-backed securities	16,239	(1,157)	135,352	(5,522)	151,591	(6,679)
Other Domestic Debt	11,247	(1,124)	18,281	(1,474)	29,528	(2,598)
	$ 64,150	$ (11,617)	$ 247,436	$ (20,544)	$ 311,586	$ (32,161)

(Continued)

NOTE 2 – DEBT SECURITIES (Continued)

	12 months or more		Less than 12 months		Total	
2021	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Treasury securities	-	-	7,838	(107)	7,838	(107)
U.S. government sponsored entities and agencies	2,284	(10)	2,654	(13)	4,938	(23)
State and political subdivision	8,936	(196)	27,947	(430)	36,883	(626)
Mortgage backed securities	-	-	21,980	(126)	21,980	(126)
Other Domestic Debt	-	-	12,293	(157)	12,293	(157)
	$ 11,220	$ (206)	$ 72,712	$ (833)	$ 83,932	$ (1,039)

As of December 31, 2022, there were 4 held-to-maturity investment securities with a fair value of $3,362,000 and an unrealized loss of $121,000. These securities were in a loss position for less than 12 months and there were no held-to-maturity securities in a loss position greater than 12 months. As of December 31, 2021, no held-to-maturity securities were in a loss position.

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, 2022 and 2021 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, 2022, there were 56 investment securities with a value of $64,150,000 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:

	2022	2021	2020
Proceeds	$ 8,312	$ $9,563	$ 3,239
Gross gains	7	297	60
Gross losses	$ 312	$ 2	$ -

(Continued)

NOTE 2 – DEBT SECURITIES (Continued)

Debt securities carried at approximately $257,192,000 and $44,121,000 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits, borrowing lines, or other purposes as permitted or required by law.

At year-end 2022 and 2021, 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:

	2022	2021
Commercial and industrial	$ 212,529	$ 237,814
Commercial real estate	493,357	382,021
Land and construction	63,265	31,917
Residential real estate	17,802	17,150
Agriculture	58,494	57,349
Consumer	16	2
	845,463	726,253
Allowance for loan losses	(9,914)	(9,785)
Deferred loan fees and (costs), net	(2,910)	(2,981)
Loans, net of allowance	$ 832,639	$ 713,487

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

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.

Included in the commercial and industrial loans are loans originated under the Small Business Administrative (SBA) programs throughout the years. In addition, the Company participated in the SBA Paycheck Protection Program (PPP), which totaled $242,000 on December 31, 2022.

(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, 2022	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	$ -	$ -	$ -	$ -	$ -	$ -	$ -
With specific allowance recorded	6,373	-	-	-	-	-	6,373
Total recorded investment In impaired loans	$ 6,373	$ -	$ -	$ -	$ -	$ -	$ 6,373
Unpaid principal balance of impaired loans:							
With no specific allowance recorded	$ -	$ -	$ -	$ -	$ -	$ -	$ -
With specific allowance recorded	6,373	-	-	-	-	-	6,373
Total unpaid principal balance of impaired loans	$ 6,373	$ -	$ -	$ -	$ -	$ -	$ 6,373
Specific allowance	$ 1,667	$ -	$ -	$ -	$ -	$ -	$ 1,667
Average recorded investment in impaired loans during the year	$ 4,086	$ -	$ -	$ -	$ -	$ -	$ 4,086
Interest income recognized on impaired loans during the year	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Continued)

NOTE 3 – LOANS (Continued)

December 31, 2021	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	$ -	$ -	$ -	$ -	$ -	$ -	$ -
With specific allowance recorded	2,920	10	-	-	-	-	2,930
Total recorded investment In impaired loans	$ 2,920	$ 10	$ -	$ -	$ -	$ -	$ 2,930
Unpaid principal balance of impaired loans:							
With no specific allowance recorded	$ -	$ -	$ -	$ -	$ -	$ -	$ -
With specific allowance recorded	2,920	10	-	-	-	-	2,930
Total unpaid principal balance of impaired loans	$ 2,920	$ 10	$ -	$ -	$ -	$ -	$ 2,930
Specific allowance	$ 1,062	$ 10	$ -	$ -	$ -	$ -	$ 1,072
Average recorded investment in impaired loans during the year	$ 2,057	$ 7	$ -	$ -	$ -	$ -	$ 2,064
Interest income recognized on impaired loans during the year	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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 inception 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 may 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, 2022 and 2021:

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Grade:					
Commercial & industrial	$ 201,903	$ 3,204	$ 7,422	$ -	$ 212,529
Commercial real estate	490,338	3,019		-	493,357
Land & construction	63,265	-	-	-	63,265
Residential real estate	17,802	-	-	-	17,802
Agriculture	58,494	-	-	-	58,494
Consumer	16	-	-	-	16
Total	$ 831,818	$ 6,223	$ 7,422	$ -	$ 845,463

December 31, 2021	Pass	Special Special Mention	Substandard	Doubtful	Total
Grade:					
Commercial & industrial	$ 234,743	$ -	$ 3,071	$ -	$ 237,814
Commercial real estate	377,157	4,854	10	-	382,021
Land & construction	31,917	-	-	-	31,917
Residential real estate	17,150	-	-	-	17,150
Agriculture	57,349	-	-	-	57,349
Consumer	2	-	-	-	2
Total	$ 718,318	$ 4,854	$ 3,081	$ -	$ 726,253

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

	2022	2021
Commercial and industrial	$ 6,373	$ 2,920
Commercial real estate	-	-
Land and construction	-	-
Residential real estate	-	-
Agriculture	-	10
Consumer	-	-
	$ 6,373	$ 2,930

(Continued)

NOTE 3 – LOANS (Continued)

The following table is an aging analysis of loans, segregated by class of loans, as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Investment > 90 Days and Accruing
Commercial & Industrial	$ 364	$ 397	$ 11,962	$ 12,723	$ 199,806	$ 212,529	$ 11,962
Commercial Real Estate	-	-	-	-	493,357	493,357	-
Land & Construction	-	-	-	-	63,265	63,265	-
Residential Real Estate	-	-	-	-	17,802	17,802	-
Agriculture	-	-	27	27	58,467	58,494	27
Consumer	-	-	-	-	16	16	-
Total	$ 364	$ 397	$ 11,989	$ 12,750	$ 832,713	$ 845,463	$ 11,989

The Bank has purchased the government guaranteed portion of Small Business Administration (“SBA”) and USDA loans originated by other banks. Many of these purchased loans were placed into a Direct Registration (“DR”) form by the SBA’s transfer agent, Colson Inc. Under the DR program, Colson was required to remit monthly payments to the investor holding the guaranteed balance, whether or not a payment had actually been received from the borrower. When Colson lost the contract in 2020 as the SBA’s fiscal transfer agent, they began transitioning servicing over to the new company called Guidehouse. By late 2021, Guidehouse, under their contract with the SBA, declined to continue the DR program. As a result, all payments under the DR, and several similar programs, were being held by Guidehouse until the DR program could be unwound and the DR holdings converted into normal SBA pass through certificates. In addition, Colson started requesting investors, who had received payments in advance of the borrower, to return advanced funds before they would process the conversion of certificates, which caused further delays. A reconciliation between Guidehouse, Colson and the Bank has taken place, and all are in agreement. The Bank has submitted all paperwork and original certificates to Colson | Guidehouse for processing and is awaiting reissue of the certificates and payment. The Bank is fully guaranteed; however, until the unwind process is completed it will continue to carry these loans as past due. As of December 31, 2022, the entire balance of $11,989,000 in loans 90 days past due and accruing are fully guaranteed by the SBA.

Subsequent to year end, the balance of the loans greater than 90 days past due and still accruing has been reduced to $7,601,000 due to payments received through March 23, 2023.

The following table is an aging analysis of loans, segregated by class of loans, as of December 31, 2021:

	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	$ 3,832	$ 254	$ 984	$ 5,070	$ 232,744	$ 237,814	$ -
Commercial Real Estate	-	-	10	10	382,011	382,021	-
Land & Construction	-	-	-	-	31,917	31,917	-
Residential Real Estate	-	-	-	-	17,150	17,150	-
Agriculture	-	-	-	-	57,349	57,349	-
Consumer	-	-	-	-	2	2	-
Total	$ 3,832	$ 254	$ 994	$ 5,080	$ 721,173	$ 726,253	$ -

The Company had no recorded investment in troubled debt restructurings for the years ended December 31, 2022 and 2021. There were no modifications made during the periods ended December 31, 2022 and December 31, 2021, respectively.

NOTE 3 – LOANS (Continued)

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.

NOTE 3 – LOANS (Continued)

The following table summarizes the Company's allowance for loan losses for the year ended December 31, 2022 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	$ 2,943	$ 5,362	$ 652	$ 165	$ 514	$ -	$ 149	$ 9,785
Charge-offs	(187)	-	-	-	-	-	-	(187)
Recoveries	16	-	-	-	-	-	-	16
Provision	2,029	(1,464)	329	(45)	(404)		(145)	300
Ending balance	$ 4,801	$ 3,898	$ 981	$ 120	$ 110	$ -	$ 4	$ 9,914
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ 1,667	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,667
Loans collectively evaluated for impairment	3,134	3,898	981	120	110	-	4	8,247
Ending Balance	$ 4,801	$ 3,898	$ 981	$ 120	$ 110	$ -	$ 4	$ 9,914
Loans:								
Individually evaluated for impairment	$ 6,373	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,373
Collectively evaluated for impairment	206,156	493,357	63,265	17,802	58,494	16	-	839,090
Ending balance	$ 212,529	$ 493,357	$ 63,265	$ 17,802	$ 58,494	$ 16	$ -	$ 845,463

(Continued)

NOTE 3 – LOANS (Continued)

The following table summarizes the Company's allowance for loan losses for the year ended December 31, 2021 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	$ 3,563	$ 2,884	$ 333	$ 140	$ 312	$ -	$ 617	$ 7,849
Charge-offs	(64)	-	-	-	-	-	-	(64)
Recoveries	-	-	-	-	-	-	-	-
Provision	(556)	2,478	319	25	202	-	(468)	2,000
Ending balance	$ 2,943	$ 5,362	$ 652	$ 165	$ 514	$ -	$ 149	$ 9,785
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ 1,363	$ 10	$ -	$ -	$ -	$ -	$ -	$ 1,373
Loans collectively evaluated for impairment	1,580	5,352	652	165	514	-	149	8,412
Ending Balance	$ 2,943	$ 5,362	$ 652	$ 165	$ 514	$ -	$ 149	$ 9,785
Loans:								
Individually evaluated for impairment	$ 2,920	$ 10	$ -	$ -	$ -	$ -	$ -	$ 2,930
Collectively evaluated for impairment	234,894	382,011	31,917	17,150	57,349	2	-	723,323
Ending balance	$ 237,814	$ 382,021	$ 31,917	$ 17,150	$ 57,349	$ 2	$ -	$ 726,253

(Continued)

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NOTE 4 – PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows:

	2022	2021
Leasehold improvements	$ 1,004	$ 1,004
Furniture, fixtures, and equipment	932	881
Computer equipment	1,136	891
	3,072	2,776
Less accumulated depreciation	(2,668)	(2,482)
	$ 404	$ 294

Depreciation expense amounted to $198,000, $137,000, and $159,000 for the years ending December 31, 2022, 2021, and 2020, respectively.

NOTE 5 – LEASES

The Company leases its offices under noncancelable operating leases with terms extending through 2026. 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, 2022, the future undiscounted lease payments under non-cancellable operating lease commitments for the Company's offices were as follows:

2023	$ 490
2024	490
2025	490
2026	83
Thereafter	-
Total undiscounted lease payment	1,553
Less: imputed interest	141
Net lease liabilities	$ 1,412

NOTE 5 – LEASES (Continued)

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

	2022	2021	2020
Operating lease cost	$ 660	$ 529	$ 497
Variable lease cost	$ 55	$ 39	$ 33
	$ 715	$ 568	$ 530

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

	2022	2021	2020
Weighted average remaining lease term, in years	2.80	3.81	4.49
Weighted average discount rate	5.01%	4.50%	4.50%

	Balance Sheet Classification	2022	2021
Right-of-use assets	Interest receivable and other assets	$1,361	$1,583
Lease liabilities	Interest payable and other liabilities	$1,412	$1,603

Total lease cost included in occupancy and equipment was $715,000, $568,000, and $530,000 for the years ended December 31, 2022, 2021, and 2020, respectively.

NOTE 6 – DEPOSITS

Customer deposits were as follows:

	2022	2021
Non-interest-bearing demand	$ 737,078	$ 594,044
Savings, NOW, and money market accounts	289,028	276,023
Time deposits under $250,000	29,541	45,230
Time deposits $250,000 and over	25,580	21,251
	$ 1,081,227	$ 936,548

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2022	$ 49,953
2023	3,355
2024	568
2025	743
2026	502
Thereafter	-
	$ 55,121

(Continued)

NOTE 7 – BORROWING ARRANGEMENTS

The Company had unsecured available lines of credit with correspondent banks for short-term borrowings totaling $91,500,000 and $45,500,000 on December 31, 2022, and 2021, respectively. overnight on an unsecured basis from three correspondent banks. In general, interest rates on these lines approximate the federal funds target rate. There were no borrowings under these credit facilities on December 31, 2022, or 2021.

As of December 31, 2022 and 2021, the Company had available lines of credit with the Federal Home Loan Bank of San Francisco totaling $244,139,000 and $187,276,000, respectively, based on eligible collateral of certain loans and investment securities. As of December 31, 2022 and 2021, the Company had an available line of credit with the Federal Reserve Bank of San Francisco totaling $212,363,000 and $36,951,000, respectively, based on eligible collateral of certain loans and investment securities.

As of December 31, 2022, the Company had $55,000,000 in advances outstanding from the Federal Home Loan Bank of San Francisco and $10,000,000 from the Federal Reserve Bank of San Francisco. As of December 31, 2021, no amounts were outstanding under these arrangements.

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, 2022, 2021, and 2020 contributions to the ESOP were $681,000, $531,000 and $433,000 respectively. The ESOP held 176,445, and 173,127 shares of common stock as of December 31, 2022, and 2021, respectively, and there were no unearned shares of common stock held by the ESOP at December 31, 2022 and 2021.

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, 2022, 2021, and 2020.

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 $171,000, $223,000, and $631,000 for the years ended December 31, 2022, 2021, and 2020, respectively. Accrued compensation payable under the salary continuation plan totaled $1,676,000, $1,535,000, and $1,311,000 at December 31, 2022, 2021, and 2020 and is included in interest payable and other liabilities on the Company's balance sheet.

(Continued)

NOTE 9 – INCOME TAXES

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

	2022	2021	2020
Current			
Federal	$ 6,223	$ 5,336	$ 3,554
State	3,585	3,270	2,082
	9,808	8,606	5,636
Deferred			
Federal	(200)	(665)	(1,010)
State	(61)	(250)	(430)
	(261)	(915)	(1,440)
Provision	$ 9,547	$ 7,691	$ 4,196

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

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:

	2022	2021
Deferred tax assets		
Depreciation	$ 77	$ 107
Allowance for loan losses	2,931	2,742
Stock-based compensation	345	251
Deferred compensation	495	454
State tax deferral	772	682
Non-accrual loan interest	91	13
Lease Liability	417	474
Unrealized losses on available-for-sale securities	9,434	-
Other	98	146
	14,660	4,869
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	-	(1,199)
Lease financing receivable	(128)	(142)
Right-of-use asset	(402)	(468)
Deductible Prepaids	(72)	-
Other	(381)	(276)
	(983)	(2,085)
Net deferred income tax asset	$ 13,677	$ 2,784

The Company is subject to federal income tax and franchise tax of the state of California, as well as other immaterial state taxing jurisdictions. Income tax returns for the years ended December 31, 2019 through December 31, 2021 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2018 through December 31, 2021, are open to audit by state authorities. As of December 31, 2022, 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.

(Continued)

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company makes loans to certain directors, officers, and their related interests with which they are associated. The balance of these loans outstanding was approximately $3,102,000 and $3,618,000 at December 31, 2022 and 2021, respectively.

Deposits from certain directors, officers, and their related interests with which they are associated, held by the Company at December 31, 2022 and 2021, totaled $7,364,000 and $7,198,000 respectively.

NOTE 11 – EARNINGS PER SHARE (EPS)

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

	2022	2021	2020
Basic earnings per share:			
Net income available to common shareholders (in thousands)	$ 26,521	$ 20,527	$ 11,512
Weighted average common shares outstanding	3,118,150	3,068,564	2,996,920
Basic earnings per share	$ 8.51	$ 6.69	$ 3.84
Diluted earnings per share:			
Net income available to common shareholders, diluted (in thousands)	$ 26,521	$ 20,527	$ 11,512
Weighted average common shares outstanding	3,118,150	3,068,564	2,996,920
Effect of dilutive stock options	23,686	31,065	37,788
Adjusted weighted average common shares outstanding, diluted	3,141,836	3,099,626	3,034,708
Diluted earnings per share	$ 8.44	$ 6.62	$ 3.79

At December 31, 2022, 2021 and 2020, there were 1,288, 7,020, and 10,797 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.

(Continued)

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.

As of December 31, 2022, and 2021, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2022	2021
Commitments to extend credit	$ 163,964	$ 169,356
Letters of credit	1,877	1,333
	$ 165,841	$ 170,689

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 Plan) was approved by its shareholders in February 2006. Under the terms of the 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 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 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 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 $1,612,000, $1,032,000, and $674,000 in 2022, 2021, and 2020, respectively. The total income tax benefit was $411,000, $281,000, and $180,000 for 2022, 2021, and 2020, respectively.

(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, 2022, 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	38,085	$ 8.78	1.18 years	$ 1,951,000
Granted	-	$ -		
Exercised	(30,121)	$ 8.22		
Forfeited, expired, or returned to Plan through cashless exercise	(439)	$ 10.00		
Outstanding at end of year	7,525	$ 10.36	1.3 years	$ 377,000
Options exercisable	7,525	$ 10.36	1.3 years	$ 377,000

As of December 31, 2022, 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, 2022	64,115	$ 31.60
Granted	40,966	58.06
Vested	(37,968)	30.60
Forfeited	(300)	34.00
Non-vested at December 31, 2022	66,813	$ 48.38

As of December 31, 2022, there was approximately $1,942,000 of total unrecognized compensation cost related to the outstanding restricted stock grants that will be recognized over a weighted average period of 1.5 years.

(Continued)

NOTE 14 – SUBORDINATED DEBT

In November 2020, the Company issued, through a private placement, $40.0 million aggregate principal amount of its 4.25% fixed-to-floating rate subordinated notes. The transaction was structured in two tranches:

(1) $30.0 million of its 4.25% Fixed-to-Floating Rate Subordinated Notes due 2030. The notes mature on November 15, 2030 and bear a fixed rate of interest of 4.25% for the first five years, payable semiannually in arrears beginning May 15, 2021. Beginning November 15, 2025, the interest rate will reset quarterly to a floating rate per annum equal to the then current 3-month term SOFR plus 407 basis points payable quarterly in arrears on February 15, May 15, August 15, and November 15 of each year to the maturity date or earlier redemption. On any scheduled interest payment date beginning November 15, 2025, the Company may, at its option, redeem the notes, in whole or in part, at the redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

(2) $10.0 million of its 4.25% Fixed-to-Floating Rate Subordinated Notes due 2035. The notes mature on November 15, 2035 and bear a fixed rate of interest of 4.25% for the first ten years, payable semiannually in arrears beginning May 15, 2021. Beginning November 15, 2030, the interest rate will reset quarterly to a floating rate per annum equal to the then current 3-month LIBOR plus 370 basis points payable quarterly, in arrears on February 15, May 15, August 15, and November 15 of each year to the maturity date or earlier redemption. On any scheduled interest payment date beginning November 15, 2030, the Company may, at its option, redeem the notes, in whole or in part, at the redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

The value of the subordinated debentures was reduced by $901,000 of debt issuance costs, which are being amortized on a straight-line basis through the earlier of the redemption option or maturity date of the subordinated debentures.

All the subordinated debentures may be included in Tier 2 capital under current regulatory guidelines and interpretations.

NOTE 15 – 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, 2022, 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 December 31, 2022 and 2021, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action.

(Continued)

NOTE 15 – SHAREHOLDERS' EQUITY (Continued)

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 for the Bank 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, 2022:						
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 149,435	15.36%	$ 43,777	>4.5%	$ 63,233	>6.5%
Total Capital (to Risk-Weighted Assets)	$ 159,369	16.38%	$ 77,825	>8.0%	$ 97,282	>10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 149,435	15.36%	$ 58,369	>6.0%	$ 77,826	>8.0%
Tier I Capital (to Average Assets)	$ 149,435	11.68%	$ 51,158	>4.0%	$ 63,947	>5.0%
December 31, 2021:						
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 122,951	16.11%	$ 34,354	>4.5%	$ 49,622	>6.5%
Total Capital (to Risk-Weighted Assets)	$ 132,497	17.36%	$ 61,074	>8.0%	$ 76,342	>10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 122,951	16.11%	$ 45,805	>6.0%	$ 61,074	>8.0%
Tier I Capital (to Average Assets)	$ 122,951	11.44%	$ 42,994	>4.0%	$ 53,743	>5.0%

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 Financial Protection and Innovation.

Common Stock:

On February 15, 2022, the Company issued 11,525 shares of its common stock totaling $681,000 as the Company's ESOP contribution for 2022. On March 2, 2021, the Company issued 14,027 shares of its common stock totaling $456,000 as the Company's ESOP contribution for 2021

(Continued)

NOTE 16 – FAIR VALUE

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.

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

Securities – The fair values of debt 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).

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 the loan carrying value. In some cases, the properties for which market quotes or appraisal values have been obtained are 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 was one Commercial & Industrial collateral-dependent impaired loan with a balance of $1,782,000 measured at fair value on a non-recurring basis at December 31, 2022. There were no collateral-dependent impaired loans measured at fair value at December 31, 2021.

(Continued)

NOTE 16 – FAIR VALUE (Continued)

The following table summarizes the Company's assets that were measured at fair value on a recurring basis at December 31, 2022:

Description of Assets	December 31, 2022	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. Treasury and federal agency	$ 10,546	$ -	$ 10,546	$ -
U.S. government sponsored entities and agencies	17,785	-	17,785	-
State and municipal agencies	118,134	-	118,134	-
Mortgage-backed securities	163,867	-	163,867	-
Other domestic debt	30,028	-	30,028	-
Total	$ 340,360	$ -	$ 340,360	$ -

The following table summarizes the Company's assets that were measured at fair value on a recurring basis at December 31, 2021:

Description of Assets	December 31, 2021	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. Treasury and federal agency	$ 11,756	$ -	$ 11,756	
U.S. government sponsored entities and agencies	27,435	-	27,435	$ -
State and municipal agencies	133,574	-	130,574	-
Mortgage-backed securities	91,417	-	91,417	-
Other domestic debt	23,764	-	23,764	-
Total	$ 287,946	$ -	$ 287,946	$ -

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

NOTE 16 – FAIR VALUE (Continued)

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.

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 held to maturity 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.

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).

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 and long-term debt, 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.

(Continued)

NOTE 16 – FAIR VALUE (Continued)

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

	2022			2021		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and cash equivalents	$ 56,974	$ 56,974	Level 1	$ 36,780	$ 36,780	Level 1
Certificates of deposit	2,983	2,983	Level 2	1,490	1,490	Level 2
Securities held-to-maturity	3,483	3,363	Level 2	4,023	4,254	Level 2
Loans held for sale	11,063	11,063	Level 2	3,811	3,811	Level 2
Loans, net	832,639	827,842	Level 3	713,487	735,530	Level 3
SBIC investments	1,044	1,044	Level 2	694	694	Level 2
Interest receivable	6,964	6,964	Level 2	5,189	5,189	Level 2
Financial liabilities:						
Deposits	1,081,227	945,427	Level 2	936,548	957,147	Level 2
Long term debt	39,441	34,221	Level 3	39,283	39,283	Level 3
Interest payable	283	283	Level 2	226	226	Level 2

NOTE 17 – INVESTMENT IN LOW INCOME HOUSING TAX CREDIT FUNDS

The Company invests in Low Income Housing Tax Credit “LIHTC” partnerships. At December 31, 2022, and 2021, the investment balance for LIHTC partnerships was $7,741,000 and $8,000,000 respectively. These balances are reflected in interest receivable and other assets on the consolidated balance sheets. Total unfunded commitments related to these partnerships totaled $7,948,000 at December 31, 2022 which is reflected in interest payable and other liabilities on the consolidated balance sheet. The Company expects to fulfill these commitments during the year ending 2027. There were no LIHTC investments prior to 2021.

During the year ended December 31, 2022, the Company recorded amortization expense of $259,000, in income tax expense. The Company recorded no amortization expense associated with the LIHTC for the year ended December 31,2021. The recognized tax benefit for the year ended December 31, 2022, was $495,000. The Company did not recognize any tax benefit associated with the LIHTC in the year end December 31, 2021.

NOTE 18 – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company’s sources of Non-Interest Income within the scope of ASC 606.

	2022	2021	2020
Non-interest income			
Service charges on deposits	$ 2,217	$ 1,573	$ 637
Debit card interchange fees	539	506	302
Merchant Services	8,435	4,000	3,959
	$ 11,191	$ 6,079	$ 4,898

The remaining balance of non-interest income is made up of other income which includes gains (loss) on sale of securities, cash overs, sundry recoveries, gain on sale of assets, gain on sale of loans, cash surrender value of life insurance, referral fee income, and other misc. income totaling $2,148,000, which is outside the scope of ASC 606.

NOTE 18 – REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request.

Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit Card Interchange Fees: The Company earns interchange fees from cardholder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily.

Merchant Service Income: The Company provides transaction processing services for business customers to allow the customer to collect payments via credit and debit card. The Company also sponsors Independent Sales Organizations ("ISO's") who provide these services to their clients. Fees charged represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided the merchant.

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