2023
Annual Report

FFB BANCORP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023, and 2022

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FFB BANCORP

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023, and 2022

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
FFB Bancorp
Fresno, California

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of FFB Bancorp, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, 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, 2023, 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 FFB Bancorp as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023 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, FFB Bancorp's internal control over financial reporting as of December 31, 2023, 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 25, 2024 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 FFB Bancorp 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, FFB Bancorp changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, *Financial Instruments - Credit Losses* (ASC 326). Our opinion is not modified with respect to this matter.

(Continued)

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.

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 FFB Bancorp'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 FFB Bancorp'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

Sacramento, California
March 25, 2024

FFB BANCORP
CONSOLIDATED BALANCE SHEETS
For the Years Ended December 31, 2023 and 2022
(Dollar amounts in thousands except per share data)

	2023	2022
ASSETS		
Cash and due from banks	$ 30,147	$ 19,683
Interest-bearing deposits in banks	32,456	37,291
Total cash and cash equivalents	62,603	56,974
Certificates of deposit	1,673	2,983
Debt securities available-for-sale, at fair value	322,878	340,360
Debt securities held-to-maturity, at amortized cost, net of allowance for credit losses of $0	3,127	3,483
Loans held for sale	—	11,063
Loans	924,713	842,553
Allowance for credit losses	(9,966)	(9,914)
Total loans, net	914,747	832,639
SBIC investments and correspondent bank stock, at cost	7,125	5,554
Cash value of life insurance	12,029	8,592
Premises and equipment, net	391	404
Interest receivable and other assets	39,753	32,412
Total assets	$ 1,364,326	$ 1,294,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 1,145,170	$ 1,081,227
Other borrowed funds	34,000	65,000
Long term debt (net of issuance cost $401 and $559 as of December 31, 2023 and 2022, respectively)	39,599	39,441
Interest payable and other liabilities	14,857	16,438
Total liabilities	1,233,626	1,202,106
Commitments (Note 12)		
Shareholders' equity:		
Common stock - 50,000,000 shares authorized, no par value: 3,171,690 and 3,139,880 shares issued and outstanding in 2023 and 2022, respectively	36,178	34,369
Retained earnings	113,991	80,469
Accumulated other comprehensive loss	(19,469)	(22,480)
Total shareholders' equity	130,700	92,358
Total liabilities and shareholders' equity	$ 1,364,326	$ 1,294,464

See accompanying notes to the consolidated financial statements.

FFB BANCORP
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2023, 2022 and 2021
(Dollar amounts in thousands except per share data)

	2023	2022	2021
Interest Income:			
Loans, including fees	$ 56,102	$ 39,666	$ 34,527
Taxable investment securities	12,298	8,276	5,067
Tax-exempt investment securities	1,561	2,175	1,621
Federal funds sold and other	2,694	1,027	342
Total interest income	72,655	51,144	41,557
Interest Expense			
Savings deposits, NOW, and money market accounts	3,721	817	600
Time deposits	3,029	251	258
Other borrowings	515	132	4
Long term debt	1,858	1,858	1,858
Total interest expense	9,123	3,058	2,720
Net interest income	63,532	48,086	38,837
Provision for credit losses	1,750	300	2,000
Net interest income after provision for credit losses	61,782	47,786	36,837
Non-interest income:			
Service charges on deposits	3,546	2,756	2,080
Merchant services income	20,931	8,435	4,000
Net (loss) gain on sales of available-for-sale securities	(3,142)	(305)	295
Net gain on sales of loans	1,906	1,613	2,984
Income from life insurance	811	195	199
Other	993	645	414
Total non-interest income	25,045	13,339	9,972
Non-interest expenses:			
Salaries and employee benefits	20,162	15,341	11,516
Occupancy and equipment	1,554	1,124	827
Regulatory assessments	667	433	277
Data processing fees	2,013	1,625	899
Professional fees	1,907	1,515	1,258
Marketing and business promotion	1,486	954	781
Merchant services operating expense	7,997	2,608	—
Director fees	534	499	414
Other expenses	4,286	958	2,619
Total non-interest expenses	40,606	25,057	18,591
Income before income taxes	46,221	36,068	28,218
Provision for income taxes	12,663	9,547	7,691
Net income	$ 33,558	$ 26,521	$ 20,527
Net income per share - basic	$10.57	$8.51	$6.69
Net income per share - diluted	$10.56	$8.44	$6.62

See accompanying notes to the consolidated financial statements.

FFB BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2023, 2022 and 2021
(Dollar amounts in thousands except per share data)

	2023	2022	2021
Net income	$ 33,558	$ 26,521	$ 20,527
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized holdings gains (losses) during the year	1,188	(36,276)	(1,821)
Reclassification of net losses included in net income	3,142	305	17
Net unrealized gains (losses)	4,330	(35,971)	(1,804)
Income tax (expense) benefit	(1,319)	10,633	533
Other comprehensive income (loss)	3,011	(25,338)	(1,271)
Total comprehensive income	$ 36,569	$ 1,183	$ 19,256

See accompanying notes to the consolidated financial statements.

FFB BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2023, 2022 and 2021
(Dollar amounts in thousands except per share data)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances, January 1, 2021	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	—	—	—	—
Net income	(2,550)	—	20,527	—	20,527
Other comprehensive income	—	—	—	(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	28,227	—	—	—	—
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
Implementation of ASU 2016-13, Current Expected Credit Loss (CECL) Day 1 Adjustment			(36)	—	(36)
Adjusted Balance, January 1, 2023	3,139,880	34,369	80,433	(22,480)	92,322
Issuance of common stock	—	—	—	—	—
Stock based compensation	—	1,912	—	—	1,912
Exercise of stock options	5,451	53	—	—	53
Restricted stock issuance	33,771	—	—	—	—
Restricted stock forfeited	(7,412)	(156)	—	—	(156)
Net income	—	—	33,558	—	33,558
Other comprehensive income	—	—	—	3,011	3,011
Balances, December 31, 2023	3,171,690	36,178	113,991	(19,469)	130,700

See accompanying notes to the consolidated financial statements.

FFB BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	2021
Cash flows from operating activities			
Net income	$ 33,558	$ 26,521	$ 20,527
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of premises and equipment	283	198	137
Amortization and accretion on securities available for sale, net	1,084	1,874	1,487
Amortization and accretion on securities held to maturity, net	1	3	15
Provision for credit losses	1,750	300	2,000
Loss (gain) on sale of available-for-sale securities	3,142	305	(295)
Gain on sale of loans held for sale	(1,906)	(1,613)	(2,984)
Loss on disposal or premises and equipment	—	2	—
Proceeds from sale of loans held for sale	11,063	62,917	27,172
Originations of loans held for sale	—	(68,556)	(27,999)
Stock based compensation expense	1,912	1,612	1,032
Increase in value of life insurance	(811)	(195)	(199)
Increase in interest receivable	(565)	(1,775)	(345)
Provision for deferred income taxes	(595)	(261)	(915)
(Decrease) increase in interest payable and other liabilities	(1,423)	1,458	8,012
Decrease (increase) in other assets	1,419	158	(8,906)
Net cash provided by operating activities	48,912	22,948	18,739
Cash flow from investing activities			
Purchase of certificates of deposit	—	(1,743)	(250)
Proceeds from maturities of certificates of deposit	1,310	—	997
Purchase of available-for-sale securities	(68,281)	(124,428)	(96,106)
Proceeds from paydowns or maturities of available-for-sale securities	27,386	25,802	19,255
Proceeds from sale/call of available-for-sale securities	57,161	8,312	9,563
Purchase of held-to-maturity securities	—	—	(1,500)
Proceeds from maturities of held-to-maturity securities	355	537	3,555
Loan originations and payments, net	(82,589)	(119,452)	(106,298)
Purchase of SBIC investments and correspondent bank stock	(1,571)	(1,422)	(1,073)
Purchases of premises and equipment	(270)	(310)	(256)
Purchase of bank owned life insurance annuity	(6,628)	—	—
Purchase of bank owned life insurance	(3,152)	—	—
Net cash used in investing activities	(76,279)	(212,704)	(172,113)
Cash flows from financing activities			
Net increase in demand deposits and savings accounts	13,690	156,038	214,750
Increase (decrease) in time deposits, net	50,253	(11,359)	(4,457)
(Repayment) proceeds from short term borrowings with the FHLB, net	(31,000)	65,000	(31,000)

See accompanying notes to the consolidated financial statements.

Net proceeds from exercise of stock options	53	(410)	—
Cash proceeds from issuance of common stock	—	681	456
Net cash provided by financing activities	32,996	209,950	179,749
Net change in cash and cash equivalents	5,629	20,194	26,375
Cash and cash equivalents, beginning of year	56,974	36,780	10,405
Cash and cash equivalents, end of year	62,603	56,974	36,780
Supplemental disclosures of cash flow information:			
Interest paid	8,863	3,001	2,785
Taxes paid	13,575	8,865	6,740
Operating cash flows from operating leases	—	565	509
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 FFB Bancorp (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 FFB Bancorp, previously Communities First Financial Corporation, became the parent holding company of FFB Bank, previously 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 FFB Bancorp, and the Bank became its wholly owned subsidiary. The Company's administrative headquarters is based in Fresno, California. The Company began expanding into Northern and Southern California during 2023 and changed its name to better resonate with clients in the new markets. Effective March 13, 2023, the Bank changed its name from Fresno First Bank to FFB Bank. On May 18, 2023, The Company changed its name from Communities First Financial Corporation to FFB Bancorp. On August 30, 2023, The Company's ticker symbol changed from "CFST" to "FFBB" to align with the renaming of the Company and 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 22, 2024, which is the date the consolidated financial statements were available to be issued.

Consolidation: The consolidated financial statements include the accounts of FFB Bancorp and its wholly owned subsidiary, FFB Bank. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2023, and 2022, 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: Net cash flows are reported for loan and deposit transactions and other borrowings. For purposes of the consolidated statement of cash flows, cash, due from banks with original maturities less than 90 days, interest-earning deposits in other banks, and Federal funds sold are considered to be cash equivalents.

Securities- Held-to-maturity("HTM"): HTM 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.

The Company measures expected credit losses on HTM debt securities on a collective basis by major security type, then further disaggregated by sector and bond rating. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts based on current and expected changes in credit ratings and default rates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based on the implied guarantees of the U. S. Government or its agencies for these investment securities, the Company did not recognize credit losses related to HTM securities during the year ended December 31, 2023.

Securities- Available-for-sale ("AFS"): AFS securities consist of U.S. agency securities, obligations of states and political subdivisions, commercial and residential mortgage-backed securities, corporate bonds, 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.

The Company evaluates AFS debt securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired AFS debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. In evaluating AFS debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, 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 issuers' financial condition, among other factors. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit losses when management believes the uncollectability of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. No security credit losses were recognized during the year ended December 31, 2023.

Loans: Loans are stated at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. Interest is accrued daily on the outstanding principal balances and included in other assets. Loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued, but not collected, on loans placed on nonaccrual status is charged against interest income. When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans on a cost-recovery method until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Nonaccrual loans are reinstated to accrual status when none of the loan’s principal and interest is past due and improvements in credit quality eliminate doubt as to the full collectability of both principal and interest, or the loan otherwise becomes well secured and in the process of collection.

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, 2023, 2022, and 2021 salaries and employee benefits expense totaling $781,000, $876,000 and $1,018,000 respectively, were deferred as loan origination costs.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses: The allowance for credit losses ("ACL") on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The allowance is established through a provision for credit losses which is charged to expense. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The Company elected the practical expedient to exclude accrued interest from the amortized cost basis when measuring potential impairment. Additionally, management notes that due to this election, accrued interest is separately reported from the loans' amortized cost basis.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience from peer data provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for the differences in the current loan-specific risk characteristics, such as differences in loan-to-values, portfolio mix, or term as well as for changes in environmental conditions, such as changes in unemployment rates, market interest rates, property values, or other relevant factors. Management may assign qualitative factors to each loan segment if there are material risks or improvements present but not yet captured in the model environment. 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.

All loan segments are exposed to risks inherent in the economy and market conditions. Significant risk characteristics related to the commercial and industrial loan segment include the borrowers' business performance and financial condition, and the value of collateral for secured loans. Significant risk characteristics related to the commercial real estate segment include the borrowers' business performance and the value of properties collateralizing the loans. Significant risk characteristics related to the land and construction loan segment include the borrowers' performance in successfully developing the real estate into the intended purpose and the value of the property collateralizing the loans. Significant risk characteristics related to the agriculture segment include the borrower's financial condition, adverse weather conditions, market price fluctuations, and competition. Significant risk characteristics related to the residential real estate segment include the borrowers' financial wherewithal to service the mortgages and the value of the property collateralizing the loans. Significant risk characteristics related to the consumer and other loan segment include the financial condition of the borrowers and the value of collateral securing the loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company segments its loans by call code for calculating the allowance for credit losses. Specifically for loans to nondepository financial institutions and all other loans (excluding consumer), which are included in the commercial and industrial segment, the weighted average remaining maturity is utilized. For all other loan segments, including other loans in the commercial and industrial segment, the cash flow method is utilized.

When loans do not share similar risk characteristics, the Company evaluates the loan for expected credit losses on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. For other individually evaluated loans that are not collateral dependent, a credit loss reserve is established at the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate.

Allowance for Credit Losses on Unfunded Commitments: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on unfunded commitments is adjusted through provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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 $5,332,000 and $3,873,000 at December 31, 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022. TIB and PCBB stock are carried at cost and were not considered impaired as of December 31, 2023 and 2022. The Company has made certain investments in Small Business Development Corporations (SBICs). SBIC investments on the consolidated balance sheet include $1,149,000 and $1,045,000, at December 31, 2023 and 2022, respectively. These investments are carried at cost and were not considered impaired as of December 31, 2023 and 2022. The Company held stock in Farmer Mac with a balance of at $19,000 and $11,000 as of December 31, 2023 and 2022, 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 $568,000, $402,000 and $231,000 for the years ended December 31, 2023, 2022, and 2021, 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.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023 and 2022 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, 2023 and 2022. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2023, 2022, and 2021, 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, 2023 and 2022 were $325,000 and $204,000 respectively. No impairment charges were recorded for the years ended December 31, 2023 or 2022 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. Reclassifications had no effect on prior year net income or shareholders equity.

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 Financial instruments - Credit loss (Topic 326) Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected Credit loss under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

842 on leases. In addition, ASC 326 made changes to the accounting for AFS debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recognized a decrease in the allowance for credit losses on loans totaling $637,000, an increase to the reserve for unfunded commitments of $688,000, and a corresponding decrease, net of taxes, in retained earnings, of $36,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The adoption of the new standard did not result in a credit loss being recorded on AFS and HTM securities.

The following table illustrates the impact of ASC 326 *(in thousands)*.

	January 1, 2023		
	As Reported under ASC 326	**Pre-ASC 326 Adoption**	**Impact of ASC 326 Adoption**
Loans:			
Commercial and industrial	$ 4,333	$ 4,801	$ (468)
Commercial real estate:			
Multifamily	1,138	2,971	(1,833)
CRE owner- occupied	1,025	478	547
CRE non-owner occupied	802	449	353
Land and construction	1,601	981	620
Residential real estate	254	120	134
Agriculture	119	110	9
Consumer and other	5	4	1
Allowance for credit losses on loans	9,277	9,914	(637)
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 708	$ 20	$ 688

The Company also adopted ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures upon the adoption of ASU 2016-13 as of January 1, 2023 on a prospective basis. The amendments in this update eliminated the accounting guidance for troubled debt restructurings (“TDRs”) by creditors in Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. The adoption modified the Company’s disclosures but did not have a material impact on its financial position or results of operations.

(Continued)

NOTE 2 – INVESTMENTS

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

	2023			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. Treasury securities	$ 11,869	$ —	$ (1,087)	$ 10,782
U.S. government sponsored entities and agencies	16,854	64	(330)	16,588
Obligations of states and political subdivisions	108,816	—	(15,832)	92,984
Agency collateralized mortgage obligations	84,389	642	(2,337)	82,694
Non-agency collateralized mortgage obligations	96,987	—	(4,630)	92,357
Corporate bonds	31,548	—	(4,075)	27,473
Total	$ 350,463	$ 706	$ (28,291)	$ 322,878
Held to Maturity:				
U.S. government sponsored entities and agencies	$ 789	$ —	$ (35)	$ 754
Mortgage backed securities	2,338	—	(59)	2,279
Total	$ 3,127	$ —	$ (94)	$ 3,033

(Continued)

NOTE 2 – INVESTMENTS (Continued)

(in thousands)	2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale:				
U.S. Treasury securities	$ 11,843	$ —	$ (1,297)	$ 10,546
U.S. government sponsored entities and agencies	18,056	119	(389)	17,786
Obligations of states and political subdivisions	139,300	31	(21,198)	118,133
Agency collateralized mortgage obligations	40,799	—	(1,952)	38,847
Non-agency collateralized mortgage obligations	129,651	96	(4,727)	125,020
Corporate bonds	32,626	—	(2,598)	30,028
Total	$ 372,275	$ 246	$ (32,161)	$ 340,360
Held to Maturity:				
U.S. government sponsored entities and agencies	1,079	—	(54)	1,025
Agency collateralized mortgage obligations	2,404	—	(67)	2,337
Total	$ 3,483	$ —	$ (121)	$ 3,362

The amortized cost and estimated fair value of all investment securities as of December 31, 2023, by contractual maturities are shown below. Expected maturities may differ from contractual maturities

NOTE 2 – INVESTMENTS (Continued)

because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties *(in thousands)*.

(in thousands)	Amortized	Estimated Fair Value
Available-for-sale		
Within One Year	$ —	$ —
One to Five Years	11,949	11,080
Five to Ten Years	32,696	28,562
Beyond Ten Years	107,588	91,597
	$ 152,233	$ 131,239
U.S. government sponsored entities and agencies	16,854	16,588
Agency collateralized mortgage obligations	84,389	82,694
Non-agency collateralized mortgage obligations	96,987	92,357
	$ 350,463	$ 322,878

	Amortized	Estimated Fair Value
Held-to-maturity		
U.S. government and agency securities	$ 789	$ 754
Mortgage-backed securities	2,338	2,279
	$ 3,127	$ 3,033

(Continued)

NOTE 2 – INVESTMENTS (Continued)

The following table summarizes debt securities AFS in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

(in thousands)	Less than 12 months		12 months or more		Total	
2023	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury securities	$ —	$ —	$ 10,782	$ (1,087)	$ 10,782	$ (1,087)
U.S. government sponsored entities and agencies	2,986	(8)	6,234	(322)	9,220	(330)
Obligations of states and political subdivisions	—	—	92,984	(15,832)	92,984	(15,832)
Agency collateralized mortgage obligations	30,857	(290)	28,173	(2,047)	59,030	(2,337)
Non-agency collateralized mortgage obligations	11,262	(500)	81,095	(4,130)	92,357	(4,630)
Corporate bonds	—	—	27,473	(4,075)	27,473	(4,075)
	$ 45,105	$ (798)	$ 246,741	$ (27,493)	$ 291,846	$ (28,291)

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:

(in thousands)	Less than 12 months		12 months or more		Total	
2022	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury securities	$ 3,404	$ (482)	$ 7,142	$ (815)	$ 10,546	$ (1,297)
U.S. government sponsored entities and agencies	5,619	(340)	1,547	(49)	7,166	(389)
Obligations of states and political subdivisions	84,780	(12,726)	27,975	(8,472)	112,755	(21,198)
Agency collateralized mortgage obligations	16,034	(795)	16,239	(1,157)	32,273	(1,952)
Non-agency collateralized mortgage obligations	119,318	(4,727)	—	—	119,318	(4,727)
Corporate bonds	18,281	(1,474)	11,247	(1,124)	29,528	(2,598)
	$ 247,436	$ (20,544)	$ 64,150	$ (11,617)	$ 311,586	$ (32,161)

As of December 31, 2023, there were 4 HTM investment securities with a fair value of $3,033,000 and an unrealized loss of $94,000. These securities were in a loss position for less than 12 months and there were no HTM securities in a loss position greater than 12 months. As of December 31, 2022, there were 4 HTM investment securities with a fair value of $3,362,000 and an unrealized loss of $121,000. There were no debt securities held to maturity on nonaccrual status or past due 30 days or more as of December 31, 2023. There were no securities transferred between AFS and HTM during the years ended December 31, 2023 and 2022.

The Company performed an assessment of HTM investments as of December 31, 2023. Based on the implied guarantees of the U. S. Government or its agencies related to these investment securities, and the absence of any historical or expected losses, substantially all qualify for a zero loss assumption.

NOTE 2 – INVESTMENTS (Continued)

The Company reviews individual securities classified as AFS to determine whether unrealized losses are deemed credit related or due to other factors such as changes in interest rates and general market conditions. An allowance for credit loss on investment securities is recorded when unrealized losses have been deemed, through the Company's qualitative assessment, to be credit related. Non-credit related unrealized losses on investment securities, which may be attributed to changes in interest rates and other market-related factors, are not recorded through an allowance for credit loss. Such declines are recorded as an adjustment to accumulated other comprehensive income, net of tax. In the event the Company is required to sell or has the intent to sell an AFS security that has experienced a decline in fair value below its amortized cost, the Company writes the amortized cost of the security down to fair value in the current period.

The Company performed a qualitative assessment of AFS investments as of December 31, 2023 and determined the unrealized losses across the classes of major security-type to be related to fluctuations in market conditions, primarily interest rates, and not reflective of a deterioration in credit value. As part of the assessment, 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 security issuer's financial condition.

At December 31, 2023, there were 219 in AFS debt securities in a gross unrealized loss position with no credit impairment, consisting of 4 US Treasury securities, 48 US government sponsored entity and agency securities, 70 obligations of state and political subdivisions, 41 agency collateralized mortgage obligations, 26 non-agency collateralized mortgage obligations, and 30 corporate debt securities. The gross unrealized losses were primarily attributable to interest rate increases and liquidity and were mainly comprised of the following:

•Obligations of States and Political Subdivisions: The unrealized losses on investments in obligations of states and political subdivisions are caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment.

•U.S. Treasury, Government Sponsored Entities and Agencies, and Agency Collateralized Mortgage Obligations: The unrealized losses on the Company's investments in U.S. treasuries and government sponsored entities and agency collateralized mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed or supported by an agency or sponsored entity of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment.

•Non-agency Collateralized Mortgage Obligations: The unrealized losses on investments in non-agency collateralized mortgage obligation securities were caused by increases in required yields by investors in these types of securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Financial metrics, payment status, credit enhancement, and ratings are reviewed on a quarterly basis in addition to other metrics provided through third-party services.

•Corporate Bonds: The unrealized losses on investments in corporate bonds were caused by increases in required yields by investors in these types of securities. Financial metrics and credit ratings are monitored quarterly. It is expected that the securities would not be settled at a price less than the amortized cost of the investment.

At December 31, 2023, the Company determined that it is not more likely than not that there is an intention to sell securities or that the Company would be required to sell securities. No allowance for

(Continued)

NOTE 2 – INVESTMENTS (Continued)

credit losses have been recognized on AFS debt securities in an unrealized loss position, as management does not believe that any of the securities are impaired due to credit risk factors as of December 31, 2023.

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

(in thousands)	**2023**	**2022**	**2021**
Proceeds	$ 57,161	$ 8,312	$ 9,563
Gross gains	79	7	297
Gross losses	$ 3,221	$ 312	$ 2

Debt securities carried at approximately $244,151,000 and $257,192,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, borrowing lines, or other purposes as permitted or required by law.

At December 31, 2023 and 2022, 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 AND ALLOWANCE FOR CREDIT LOSSES ON LOANS

Major classifications of loans are as follows:

(in thousands)	**2023**	**2022**
Commercial and industrial	$ 219,011	$ 212,529
Commercial real estate:		
Multifamily	296,986	263,279
CRE owner- occupied	149,400	134,266
CRE non-owner occupied	109,853	95,812
Land and construction	75,773	63,265
Residential real estate	17,355	17,802
Agriculture	59,961	58,494
Consumer and other	5	16
	928,344	845,463
Allowance for credit losses	(9,966)	(9,914)
Deferred loan costs, net	(3,631)	(2,910)
Loans, net of allowance	$ 914,747	$ 832,639

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

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

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.

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.

Land and construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified costs and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Agriculture loans may be adversely impacted by weather, insects, marketing issues, and crop concentration. Additionally, California may experience severe droughts, which can significantly harm the business of customers and the credit quality of the loans to impacted borrowers. Water resources and related issues affecting customers are closely monitored by Management. Signs of deterioration within the portfolio are closely monitored in an effort to manage credit quality and promote early efforts to work with borrowers in order to mitigate any potential losses.

The following table summarizes the Company's activity in the allowance for credit losses on loans which is recorded as a contra asset, and the reserve for unfunded commitments which is recorded on the balance sheet within other liabiliies for the year ended December 31, 2023:

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

(in thousands)	Beginning Balance	Adoption of CECL	Charge-offs	Recoveries	Provision (Benefit)	Ending Balance
Commercial and Industrial	$ 4,801	$ (468)	$ (1,445)	$ 73	$ 946	$ 3,907
Commercial Real Estate:						
Multifamily	2,971	(1,833)	—	—	262	1,400
CRE owner- occupied	478	547	—	—	75	1,100
CRE non-owner occupied	449	353	—	—	172	974
Land and Construction	981	620	—	—	667	2,268
Residential Real Estate	120	134	—	—	(31)	223
Agriculture	110	9	—	—	(25)	94
Consumer and other	4	1	—	—	(5)	-
Allowance for credit losses on loans	9,914	(637)	(1,445)	73	2,061	9,966
Reserve for unfunded commitments	20	688	—	—	(311)	397
Total	$ 9,934	$ 51	$ (1,445)	$ 73	$ 1,750	$ 10,363

The following table summarizes the Company's allowance for loan losses for the year ended December 31, 2022 by portfolio segment:

(in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (Benefit)	Ending Balance
Commercial and Industrial	$ 2,943	$ (187)	$ 16	$ 2,029	$ 4,801
Commercial Real Estate:					
Multifamily	3,488	—	—	(517)	2,971
CRE owner- occupied	1,283	—	—	(805)	478
CRE non-owner occupied	591	—	—	(142)	449
Land and Construction	652	—	—	329	981
Residential Real Estate	165	—	—	(45)	120
Agriculture	514	—	—	(404)	110
Consumer	—	—	—	—	—
Unallocated	149	—	—	(145)	4
Ending balance	$ 9,785	$ (187)	$ 16	$ 300	$ 9,914

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022:

	Period-end amount allocated to:		Loans:	
(in thousands)	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Commercial and Industrial	$ 1,667	$ 3,134	$ 6,373	$ 206,156
Commercial Real Estate:				
Multifamily	—	2,971	—	263,279
CRE owner- occupied	—	478	—	134,266
CRE non-owner occupied	—	449	—	95,812
Land and Construction	—	981	—	63,265
Residential Real Estate	—	120	—	17,802
Agriculture	—	110	—	58,494
Consumer	—	—	—	16
Unallocated	—	4	—	—
Ending Balance	$ 1,667	$ 8,247	$ 6,373	$ 839,090

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. Loans that were considered collateral dependent at December 31, 2023 included the following: one commercial and industrial loan totaling $1,782,000 secured by equipment.

The following table presents information for impaired loans for the year ended December 31, 2022 (in thousands):

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

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	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Credit Quality Indicators:

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 AND ALLOWANCE FOR CREDIT LOSSES ON 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 table shows the loan portfolio by segment allocated by management's internal risk ratings as of December 31, 2023 (in thousands):

	Term Loans Amortized Cost Basis by Origination Year							Revolving	
December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Converted to Term**	**Total**
Commercial and industrial									
Pass	$27,360	$41,504	$17,510	$ 9,954	$ 9,773	$22,329	$ 82,626	$ —	$ 211,056
Special Mention	—	—	133	—	1,430	101	—	—	1,664
Substandard	—	663	536	3,775	504	813	—	—	6,291
Total	27,360	42,167	18,179	13,729	11,707	23,243	82,626	—	219,011
Current period gross write-offs	—	491	454	464	—	36	—	—	1,445
Commercial Real Estate-Multifamily									
Pass	97,085	147,772	29,527	18,707	2,027	1,868	—	—	296,986
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	97,085	147,772	29,527	18,707	2,027	1,868	—	—	296,986
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Commercial Real Estate-Owner-occupied									
Pass	22,739	25,934	39,162	24,623	15,091	19,399	2,452	—	149,400
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	22,739	25,934	39,162	24,623	15,091	19,399	2,452	—	149,400
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Commercial Real Estate-Non-owner occupied									
Pass	24,851	20,586	26,830	10,791	7,129	19,666	—	—	109,853
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	24,851	20,586	26,830	10,791	7,129	19,666	—	—	109,853

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

Current period gross write-offs	—	—	—	—	—	—	—	—	—
Land & construction									
Pass	26,206	18,231	26,849	2,035	466	—	1,986	—	75,773
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	26,206	18,231	26,849	2,035	466	—	1,986	—	75,773
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Residential real estate									
Pass	1,318	1,214	3,878	6,105	—	2,101	2,739	—	17,355
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	1,318	1,214	3,878	6,105	—	2,101	2,739	—	17,355
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Agriculture									
Pass	7,520	4,905	16,985	3,570	3,815	2,683	20,483	—	59,961
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	7,520	4,905	16,985	3,570	3,815	2,683	20,483	—	59,961
Current period gross write-offs	—	—	—	—	—	—	—	—	—
Consumer and other									
Pass	—	—	—	—	—	—	5	—	5
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	5	—	5
Current period gross write-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

The following table summarizes the loan portfolio by credit quality and segment as of December 31, 2022 (in thousands):

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

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

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

(in thousands)	2023	2022
Commercial and industrial	$ 6,006	$ 6,373
Commercial real estate	—	—
Land and construction	—	—
Residential real estate	—	—
Agriculture	—	—
Consumer	—	—
	$ 6,006	$ 6,373

The following table is an aging analysis of loans, segregated by class of loans, as of December 31, 2023:

(in thousands)	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90+ Days and Accruing	Nonaccrual	Total Loans	Nonaccrual loans with no Allowance for Credit Losses
Commercial & Industrial	$ 210,384	$ 1,077	$ 199	$ 1,345	$ 6,006	$ 219,011	$ 938
Commercial Real Estate:							-
Multifamily	296,986	—	—	—	—	296,986	—
CRE owner- occupied	149,400	—	—	—	—	149,400	—
CRE non-owner occupied	109,853	—	—	—	—	109,853	—
Land & Construction	75,773	—	—	—	—	75,773	—
Residential Real Estate	17,355	—	—	—	—	17,355	—
Agriculture	59,961	—	—	—	—	59,961	—
Consumer	5	—	—	—	—	5	—
Total	$ 919,717	$ 1,077	$ 199	$ 1,345	$ 6,006	$ 928,344	$ 938

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, 2023, the entire balance of $1,345,000 in loans 90 days past due and accruing are fully guaranteed by the SBA.

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

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

(in thousands)	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90+ Days and Accruing	Nonaccrual	Total Loans	Nonaccrual loans with no Allowance for Credit Losses
Commercial & Industrial	$ 193,433	$ 364	$ 397	$ 11,962	$ 6,373	$ 212,529	$ 183
Commercial Real Estate:							
Multifamily	263,279	—	—	—	—	263,279	—
CRE owner- occupied	134,266	—	—	—	—	134,266	—
CRE non-owner occupied	95,812	—	—	—	—	95,812	—
Land & Construction	63,265	—	—	—	—	63,265	—
Residential Real Estate	17,802	—	—	—	—	17,802	—
Agriculture	58,467	—	—	27	—	58,494	—
Consumer	16	—	—	—	—	16	—
Total	$ 826,340	$ 364	$ 397	$ 11,989	$ 6,373	$ 845,463	$ 183

Occasionally, the Company modifies loans to borrowers experiencing financial difficulty by providing interest rate reductions, principal or interest forgiveness, forbearance, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

The following table shows the balance of loans that were both experiencing financial difficulty and modified during the period ended December 31, 2023.

(in thousands)	Principal Forgiveness	Payment Delay/Term Extension	Interest Rate Reduction	Combination-Payment Delay/Rate Reduction	Total % of Loans Outstanding
Commercial & Industrial	$ —	$ 5,733	$ —	$ —	0.62 %
Commercial Real Estate:					
Multifamily	—	—	—	—	— %
CRE owner- occupied	—	856	—	—	0.09 %
CRE non-owner occupied	—	—	—	—	— %
Land & Construction	—	—	—	—	— %
Residential Real Estate	—	—	—	—	— %
Agriculture	—	—	—	—	— %
Consumer	—	—	—	—	— %
Total	$ —	$ 6,589	$ —	$ —	0.71 %

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. At December 31, 2023, all modified loans were current and performing based on their modification terms.

The Company did not have any loans with a payment default during the year ended December 31, 2023 that were modified in the twelve months prior to that default to borrowers experiencing financial difficulty. In the event the Company determines that a modified loan is deemed uncollectible, the loan or portion of the loan is written off. The amortized cost basis is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS (Continued)

The Company had no recorded investment in troubled debt restructurings for the year ended December 31, 2022. There were no modifications made or payment defaults on troubled debt restructurings during the period ended December 31, 2022.

NOTE 4 – PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows:

(in thousands)	2023	2022
Leasehold improvements	$ 1,120	$ 1,004
Furniture, fixtures, and equipment	734	932
Computer equipment	409	1,136
	2,263	3,072
Less accumulated depreciation	(1,872)	(2,668)
	$ 391	$ 404

Depreciation expense amounted to $283,000, $198,000, and $137,000 for the years ending December 31, 2023, 2022, and 2021, 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.

(Continued)

NOTE 5 – LEASES (Continued)

At December 31, 2023, the future undiscounted lease payments under non-cancellable operating lease commitments for the Company's offices were as follows (in thousands):

2024	$ 490
2025	490
2026	83
Thereafter	—
Total undiscounted lease payment	1,063
Imputed interest	589
Net lease liabilities	$ 1,652

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

(in thousands)	**2023**	**2022**	**2021**
Operating lease cost	$ 796	$ 660	$ 529
Variable lease cost	$ —	$ 55	$ 39
	$ 796	$ 715	$ 568

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

	2023	**2022**	**2021**
Weighted average remaining lease term, in years	2.23	2.80	3.81
Weighted average discount rate	5.57%	5.01%	4.50%

(in thousands)	**Balance Sheet Classification**	**2023**	**2022**
Right-of-use assets	Interest receivable and other assets	$ 1,584	$ 1,361
Lease liabilities	Interest payable and other liabilities	$ 1,652	$ 1,412

Total lease cost included in occupancy and equipment was $796,000, $715,000, and $568,000 for the years ended December 31, 2023, 2022, and 2021, respectively.

(Continued)

NOTE 6 – DEPOSITS

Customer deposits were as follows:

(in thousands)	**2023**	**2022**
Non-interest-bearing demand	$ 775,507	$ 737,078
Savings, NOW, and money market accounts	264,288	289,028
Time deposits under $250,000	42,578	29,541
Time deposits $250,000 and over	62,797	25,580
	$ 1,145,170	$ 1,081,227

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

2024	$ 85,061
2025	19,036
2026	749
2027	505
2028	24
Thereafter	—
	$ 105,375

NOTE 7 – BORROWING ARRANGEMENTS

The Company had unsecured available lines of credit with correspondent banks for short-term borrowings totaling $91,500,000 and $91,500,000 on December 31, 2023, and 2022, respectively. In general, interest rates on these lines approximate the federal funds target rate. There were no borrowings under these credit facilities on December 31, 2023, or 2022.

As of December 31, 2023 and 2022, the Company had available lines of credit with the Federal Home Loan Bank of San Francisco totaling $295,979,000 and $244,139,000, respectively, based on eligible collateral of certain loans and investment securities. As of December 31, 2023 and 2022, the Company had an available line of credit with the Federal Reserve Bank of San Francisco totaling $179,836,000 and $212,363,000, respectively, based on eligible collateral of certain loans and investment securities.

As of December 31, 2023, the Company had $20,000,000 in overnight advances outstanding from the Federal Home Loan Bank of San Francisco and $14,000,000 in overnight borrowings from the Federal Reserve Bank of San Francisco. The rates paid on the Federal Home Loan Bank and Federal Reserve Bank overnight borrowings were 5.59% and 5.50%, respectively. 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.

(Continued)

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, 2023, 2022, and 2021 contributions to the ESOP were $916,000 $681,000 and $531,000 respectively. The ESOP held 175,113, and 176,000 shares of common stock as of December 31, 2023, and 2022, respectively, and there were no unearned shares of common stock held by the ESOP at December 31, 2023 and 2022.

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, 2023, 2022, and 2021.

The Board of Directors approved salary continuation plans for certain executives during 2017 and 2023. Under the plans the Company is obligated to provide executives with supplemental 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 $353,000, $171,000, and $223,000 for the years ended December 31, 2023, 2022, and 2021, respectively. Accrued compensation payable under the salary continuation plan totaled $1,956,000, $1,676,000, and $1,535,000 at December 31, 2023, 2022, and 2021 and is included in interest payable and other liabilities on the Company's balance sheet. In addition, in June 2023, the Company purchased six annuity contracts, totaling $6,628,000, to satisfy the benefit obligation associated with certain supplemental executive retirement plan agreements. The Company recognized $526,000 in income on the annuity contracts for the year ended December 31, 2023.

NOTE 9 – INCOME TAXES

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

(in thousands)	**2023**	**2022**	**2021**
Current			
Federal	$ 8,871	$ 6,223	$ 5,336
State	4,387	3,585	3,270
	13,258	9,808	8,606
Deferred			
Federal	(508)	(200)	(665)
State	(87)	(61)	(250)
	(595)	(261)	(915)
Provision	$ 12,663	$ 9,547	$ 7,691

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.

(Continued)

NOTE 9 – INCOME TAXES (Continued)

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

(in thousands)	2023	2022
Deferred tax assets		
Depreciation	$ 84	$ 77
Allowance for loan losses	2,902	2,931
Stock-based compensation	411	345
Deferred compensation	571	495
State tax deferral	959	772
Non-accrual loan interest	233	91
Lease Liability	480	417
Unrealized losses on available-for-sale securities	8,208	9,434
Other	290	98
	14,138	14,660
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	—	—
Lease financing receivable	(107)	(128)
Right-of-use asset	(461)	(402)
Deductible Prepaids	(99)	(72)
Other	(430)	(381)
	(1,097)	(983)
Net deferred income tax asset	$ 13,041	$ 13,677

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, 2020 through December 31, 2022 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2019 through December 31, 2022, are open to audit by state authorities. As of December 31, 2023, the Company does not have any unrecognized tax benefits. The Company does not expect unrecognized tax benefits to significantly increase or decrease within the next 12 months.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company makes loans to certain directors, officers, and their related interests with which they are associated. The balance of these loans outstanding was approximately $3,106,000 and $3,102,000 at December 31, 2023 and 2022, respectively.

Deposits from certain directors, officers, and their related interests with which they are associated, held by the Company at December 31, 2023 and 2022, totaled $3,400,000 and $7,364,000 respectively.

NOTE 11 – EARNINGS PER SHARE (EPS)

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

	2023	2022	2021
Basic earnings per share:			
Net income available to common shareholders (in thousands)	$ 33,558	$ 26,521	$ 20,527
Weighted average common shares outstanding	3,174,589	3,118,150	3,068,564
Basic earnings per share	$ 10.57	$ 8.51	$ 6.69
Diluted earnings per share:			
Net income available to common shareholders, diluted (in thousands)	$ 33,558	$ 26,521	$ 20,527
Weighted average common shares outstanding	3,174,589	3,118,150	3,068,564
Effect of dilutive stock options	2,349	23,686	31,065
Adjusted weighted average common shares outstanding, diluted	3,176,938	3,141,836	3,099,626
Diluted earnings per share	$ 10.56	$ 8.44	$ 6.62

At December 31, 2023, 2022 and 2021, there were 267, 1,288, and 7,020 stock options, respectively that could potentially dilute earnings per share in the future that were not included in the computation of diluted earnings per share.

NOTE 12 – COMMITMENTS

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

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

(Continued)

NOTE 12 – COMMITMENTS (Continued)

As of December 31, 2023, and 2022, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

(in thousands)	2023	2022
Commitments to extend credit	$ 178,341	$ 163,964
Letters of credit	2,117	1,877
	$ 180,458	$ 165,841

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 $1,912,000, $1,612,000, and $1,032,000 in 2023, 2022, and 2021, respectively. The total income tax benefit was $542,000, $411,000, and $281,000 for 2023, 2022, and 2021,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, 2023, 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	7,525	$ 10.36	1.30 years	$ 377,000
Granted	—	$ —		
Exercised	(5,451)	$ 10.44		
Forfeited, expired, or returned to Plan through cashless exercise	(74)	$ 9.81		
Outstanding at end of year	2,000	$ 10.15	2.0 years	$ 116,000
Options exercisable	2,000	$ 10.15	2.0 years	$ 116,000

As of December 31, 2023, 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, 2023	66,813	$ 48.38
Granted	33,771	61.53
Vested	(38,024)	44.83
Forfeited	(7,412)	63.89
Non-vested at December 31, 2023	55,148	$ 57.72

As of December 31, 2023, there was approximately $2,186,000 of total unrecognized compensation cost related to the outstanding restricted stock grants that will be recognized over a weighted average period of 1.2 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 term SOFR 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 AFS securities is not included in computing regulatory capital. Management believes as of December 31, 2023, 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

(Continued)

NOTE 15 – SHAREHOLDERS' EQUITY (Continued)

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, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action.

There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios, excluding the capital conservation buffer, are presented 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	Minimum Ratio	Amount	Minimum Ratio
December 31, 2023:						
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 186,137	18.72%	$ 44,742	4.5%	$ 64,628	6.5%
Total Capital (to Risk-Weighted Assets)	$ 196,500	19.76%	$ 79,542	8.0%	$ 99,427	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 186,137	18.72%	$ 59,656	6.0%	$ 79,542	8.0%
Tier I Capital (to Average Assets)	$ 186,137	13.58%	$ 54,807	4.0%	$ 68,509	5.0%
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 %

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 part of the Company's ESOP contribution for 2022.

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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 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 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 loan with a balance of $1,762,000 measured at fair value on a non-recurring basis at December 31, 2023. There was one Commercial & Industrial collateral-dependent loans with a balance of $1,782,000 measured at fair value at December 31, 2022.

(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, 2023 (in thousands):

Description of Assets	December 31, 2023	Quoted Prices in Active Markets For Identical Assets Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
U.S. Treasury securities	$ 10,782	$ —	$ 10,782	$ —
U.S. government sponsored entities and agencies	16,588	—	16,588	—
Obligations of states and political subdivisions	92,984	—	92,984	—
Agency collateralized mortgage obligations	82,694	—	82,694	—
Non-agency collateralized mortgage obligations	92,357	—	92,357	—
Corporate bonds	27,473	—	27,473	—
Total	$ 322,878	$ —	$ 322,878	$ —

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

Description of Assets	December 31, 2022	Quoted Prices in Active Markets For Identical Assets Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale				
U.S. Treasury securities	$ 10,546	$ —	$ 10,546	$ —
U.S. government sponsored entities and agencies	17,786	—	17,786	—
Obligations of states and political subdivisions	118,133	—	118,133	—
Agency collateralized mortgage	38,847	—	38,847	—
Non-agency collateralized mortgage obligations	125,020	—	125,020	—
Corporate bonds	30,028	—	30,028	—
Total	$ 340,360	$ —	$ 340,360	$ —

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

(Continued)

NOTE 16 – FAIR VALUE (Continued)

the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

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.

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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):

	2023			2022		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and cash equivalents	$ 62,603	$ 62,603	Level 1	$ 56,974	$ 56,974	Level 1
Certificates of deposit	1,673	1,673	Level 2	2,983	2,983	Level 2
Securities held-to-maturity	3,127	3,124	Level 2	3,483	3,363	Level 2
Loans held for sale	—	—	Level 2	11,063	11,063	Level 2
Loans, net	924,713	910,182	Level 3	832,639	827,842	Level 3
SBIC investments	7,125	7,125	Level 2	1,044	1,044	Level 2
Interest receivable	7,492	7,492	Level 2	6,964	6,964	Level 2
Financial liabilities:						
Deposits	1,145,170	1,042,776	Level 2	1,081,227	945,427	Level 2
Long term debt	39,599	33,220	Level 3	39,441	34,221	Level 3
Interest payable	543	543	Level 2	283	283	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, 2023, and 2022, the investment balance for LIHTC partnerships was $7,021,000 and $7,741,000 respectively. These balances are reflected in interest receivable and other assets on the consolidated balance sheets. Total unfunded commitments related to these partnerships totaled $4,370,000 at December 31, 2023 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, 2023, the Company recorded amortization expense of $979,000, in income tax expense. The Company recorded $259,000 amortization expense associated with the LIHTC for the year ended December 31, 2022. The recognized tax benefit for the year ended December 31, 2023, was $916,000. The Company recognized $495,000 in tax benefit associated with the LIHTC in the year end December 31, 2022.

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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.

(in thousands)	2023	2022	2021
Non-interest income			
Service charges on deposits	$ 3,546	$ 2,217	$ 1,573
Debit card interchange fees	614	539	506
Merchant Services	20,931	8,435	4,000
	$ 25,091	$ 11,191	$ 6,079

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 miscellaneous income totaling -$46,000, which is outside the scope of ASC 606.

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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