EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders and
Board of Directors
Exchange Bank and Subsidiaries
Santa Rosa, California

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Exchange Bank and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, 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 Exchange Bank and Subsidiaries as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Exchange Bank and Subsidiaries' 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 20, 2024 expressed an unmodified opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Exchange Bank and Subsidiaries 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.

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 Exchange Bank and Subsidiaries 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.

(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 Exchange Bank and Subsidiaries' 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 Exchange Bank and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Crowe LLP

Crowe LLP

Sacramento, California
March 20, 2024

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(In thousands, except share and par value amounts)

	2023	2022
ASSETS		
Cash and due from banks	$ 89,354	$ 48,129
Short-term investments	257	244
Total cash and cash equivalents	89,611	48,373
Interest-bearing deposits in other financial institutions	-	1,000
Available-for-sale investment securities	1,497,445	1,575,648
Loans and leases	1,594,677	1,509,908
Less allowance for credit losses	(41,268)	(43,540)
Net loans and leases	1,553,409	1,466,368
Federal Home Loan Bank stock	15,000	15,000
Bank premises and equipment, net	17,472	17,217
Bank owned life insurance	68,887	66,597
Other real estate owned	-	310
Accrued interest receivable and other assets	126,748	143,884
Total assets	$ 3,368,572	$ 3,334,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 977,426	$ 1,189,742
Interest bearing	1,861,201	1,876,539
Total deposits	2,838,627	3,066,281
Other borrowings	225,000	20,000
Accrued interest payable and other liabilities	49,721	46,092
Total liabilities	3,113,348	3,132,373
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, 1,000,000 shares authorized:		
None issued or outstanding	-	-
Common stock, $2.50 par value; 3,000,000 shares authorized; 1,714,344 shares issued and outstanding	4,286	4,286
Additional paid-in capital	46,026	46,026
Retained earnings	316,652	305,373
Accumulated other comprehensive income (loss), net of taxes	(111,740)	(153,661)
Total stockholders' equity	255,224	202,024
Total liabilities and stockholders' equity	$ 3,368,572	$ 3,334,397

See accompanying notes to consolidated financial statements

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2023 and 2022
(In thousands, except per share amounts)

	2023	2022
Interest income:		
Interest and fees on loans and leases	$ 81,919	$ 71,437
Interest on investment securities:		
Taxable	31,125	27,353
Exempt from Federal income taxes	2,504	2,420
Total interest income	115,548	101,210
Interest expense:		
Interest on deposits	16,716	2,035
Interest on borrowings	8,342	40
Total interest expense	25,058	2,075
Net interest income before provision for loan and lease losses	90,490	99,135
Provision for credit losses	-	-
Net interest income after provision for loan and lease losses	90,490	99,135
Non-interest income:		
Service charges and fees	3,265	3,279
Trust income	9,787	10,024
Merchant discount and interchange fees	5,311	5,200
Income from bank owned life insurance	2,255	2,121
Gain on sale of other real estate owned	694	-
Other income	2,348	3,744
Total non-interest income	23,660	24,368
Non-interest expense:		
Salaries and employee benefits	41,110	40,279
Occupancy and equipment	8,160	7,621
Professional fees	7,014	7,855
FDIC assessments	1,574	990
Pension Plan retirement	8,398	-
Other expenses	20,182	16,672
Total non-interest expense	86,438	73,417
Income before provision for income taxes	27,712	50,086
Provision for income taxes	7,519	12,606
Net income	$ 20,193	$ 37,480
Basic and diluted earnings per common share	$ 11.78	$ 21.86

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Net Income	$ 20,193	$ 37,480
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gains (losses) arising during the period	50,191	(200,305)
Tax effect	(14,841)	59,219
Changes in unrealized gain (loss) on available-for-sale investment securities, net of tax	35,350	(141,086)
Defined benefit pension plans:		
Net gains (losses) arising during the period	6,351	(6,611)
Prior service reclass	2,665	-
Tax effect	(2,665)	1,954
Changes in defined benefit pension plans, net of tax	6,351	(4,657)
Change in deferred compensation trust liabilities	312	(729)
Tax effect	(92)	215
Changes in deferred compensation trust, net of tax	220	(514)
Other comprehensive income (loss)	41,921	(146,257)
Total Comprehensive Income (loss)	$ 62,114	$ (108,777)

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Stockholders' Equity
Balance, January 1, 2022	$ 4,286	$ 46,026	$ 276,294	$ (7,404)	$ 319,202
Net Income	-	-	37,480	-	37,480
Other comprehensive (loss)	-	-	-	(146,257)	(146,257)
Cash Dividends ($4.90 per share)	-	-	(8,401)	-	(8,401)
Balance, December 31, 2022	$ 4,286	$ 46,026	$ 305,373	$ (153,661)	$ 202,024
Net Income	-	-	20,193	-	20,193
Other comprehensive income	-	-	-	41,921	41,921
Cash Dividends ($5.20 per share)	-	-	(8,914)	-	(8,914)
Balance, December 31, 2023	**$ 4,286**	**$ 46,026**	**$ 316,652**	**$ (111,740)**	**$ 255,224**

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities:		
Net Income	$ 20,193	$ 37,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,278	2,243
Provision for loan losses	-	-
Deferred income tax expense (benefit)	(7,833)	1,007
Gain on sale of guaranteed portion of SBA loans	-	(490)
Accretion of discounts and amortization of premiums on investment securities	5,300	6,494
Net change in deferred loan origination fees	325	(2,136)
Net loans originated with intent to sell and sold	-	(2,414)
(Increase) Decrease in bank owned life insurance, net of expenses	(1,583)	271
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	18,997	(17,047)
Accrued interest payable and other liabilities	1,333	7,660
Net cash provided by operating activities	39,010	33,068
Cash flows from investing activities:		
Decrease in Interest-bearing deposits in other financial institutions	1,000	16,000
Proceeds from maturities of investment securities	135,531	175,096
Purchase of investment securities	(12,440)	(548,761)
Purchase of Federal Home Loan Bank (FHLB) stock	-	(535)
Purchase of bank owned life insurance	(707)	(2,415)
Net (increase) decrease in loans and leases	(87,366)	4,933
Proceeds from sale of other real estate owned	310	-
Purchase of bank premises and equipment	(2,533)	(744)
Net cash (used in) investing activities	33,795	(356,426)
Cash flows from financing activities:		
Net (decrease) in demand, interest bearing and savings deposits	(443,333)	(91,040)
Net increase (decrease) in time deposits	215,680	(21,797)
Net increase in FRB borrowing	225,000	-
Net (decrease) increase In short-term FHLB advances	(20,000)	20,000
Cash paid for dividends	(8,914)	(8,401)
Net cash (used in) financing activities	(31,567)	(101,238)
Increase (decrease) in cash and cash equivalents	41,238	(424,596)
Cash and cash equivalents, beginning of year	48,373	472,969
Cash and cash equivalents, end of year	$ 89,611	$ 48,373
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 24,568	$ 2,980
Income taxes	$ 14,350	$ 12,800

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: Exchange Bank (the "Bank"), a California corporation, and its wholly-owned subsidiaries, A. J. Ventures, Inc., AJV-Alderbrook LLC conduct their business from their headquarters in Santa Rosa, California. The Bank is a full service bank providing a range of commercial and retail banking services to individuals and businesses. The Bank, through its loan portfolio, has geographically concentrated credit risk in Sonoma County. Additionally, the loan portfolio has a concentration in loans secured by real estate.

The accounting and reporting policies of the Bank and its subsidiaries conform with accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry. A summary of the more significant accounting and reporting policies follows:

Principles of Consolidation: The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, A. J. Ventures, Inc. and AJV-Alderbrook LLC. The subsidiaries are used to hold real estate properties acquired through, or in lieu of, loan foreclosure. All intercompany accounts and transactions have been eliminated upon 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 based on available information. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the consolidated statement of cash flows, the Bank considers all highly liquid investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents include cash, due from banks, money market investments and Federal funds sold. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and sold.

Investment Securities: The Bank classifies its investment securities as either available-for-sale or held-to-maturity at the time of purchase. Available-for-sale investment securities are measured at fair value with a corresponding recognition of the net unrealized holding gain or loss, net of income taxes, within accumulated other comprehensive income (loss), which is a separate component of stockholders' equity, until realized. Held-to-maturity investment securities are measured at amortized cost, based on the Bank's positive intent and ability to hold such securities to maturity. At December 31, 2023 and 2022, the Bank did not hold any held-to-maturity investment securities.

Premiums on investment securities are amortized to the earliest call date and discounts are accreted over the period to maturity of those securities. Interest income is recognized when earned. Realized gains and losses on the sale of investment securities are recorded on the trade date and are computed using the specific identification method for determining the cost of investment securities sold.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For available-for-sale investment securities in an unrealized loss position, the Bank first assesses whether it intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale investment securities that do not meet the aforementioned criteria the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. The Bank measures the allowance for credit losses on available-for-sale investment securities by performing an assessment of unrealized losses in the portfolio to evaluate potential credit loss existence. The review is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. If credit-related impairment is identified, the Bank would record an allowance for credit loss related to the appropriate available-for-sale investment securities as a contra asset. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal).

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the 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. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans and Leases: Loans that management has the ability and intent to hold for the foreseeable future or maturity or payoff are reported at the principal amounts outstanding, adjusted for unamortized discounts and premiums and net of deferred loan origination fees and costs, write-downs and the allowance for credit losses. Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

The Bank may charge fees for originating loans and leases. These origination and commitment fees, net of certain related direct loan and lease origination costs, are deferred. The net deferred fees or costs are recognized as an adjustment of yield over the contractual life of the loan or lease using the interest method. The unamortized balance of deferred fees and costs is reported as a component of net loans and leases.

For all classes of loans, interest is accrued daily based upon outstanding loan and lease balances. However, when, in the opinion of management, loans or leases become 90 days past due, unless the loan is well-secured and in process of collection or are individually evaluated and the future collectability of interest and principal is in serious doubt, a loan or lease is placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans or leases, or payments received on nonaccrual loans or leases for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Generally, loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Accrued interest receivable totaled $12,170 and $11,580 at December 31, 2023 and 2022, respectively and was reported in Accrued interest receivable and other assets on the consolidated balance sheets.

Allowance for Credit Losses – Loans: Management estimates the allowance for credit loss ("ACL") 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 provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank is using a discounted cash flow model that incorporates a probability of loss and loss given default. The allowance for collectively evaluated loans is comprised of the historical, macroeconomic and qualitative components. The historical loss component begins with the baseline loss rates calculated using the Bank's average quarterly historical loss information for an economic cycle. The Bank utilizes a 16 year look back for historical purposes. The historical loss rates are applied to each loan's estimated cash flows over the life of the loan under the remaining life method to determine the historical component of the estimated loss for each loan. Estimated cash flows consider the principal and interest in accordance with the contractual term of the loan and estimated prepayments. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank. Prepayments are established for each segment based on historical averages for the segment, which management believes is an accurate representation of future prepayment activity.

The macroeconomic component considers the forecasted direction of the economic and business environment and its likely impact on the estimated allowance as compared to the historical losses over the reasonable and supportable time frame. The Bank has elected to forecast the first four quarters and revert on a straight-line basis over eight quarters. The Bank uses macroeconomic scenarios from independent third parties, including unemployment rate, gross domestic product, and housing price index. Macroeconomic factor multipliers are determined through regression analysis and applied to loss rates for each segment of loans with similar risk characteristics. The impact of those macroeconomic factors on each segment, both positive or negative, using the reasonable and supportable period, are added to the calculated historical loss component of the allowance.

The third component of the Bank's ACL model incorporates qualitative factors. Historical information and experiences provide a basis for the ACL calculation; however, they may not incorporate new risks that may be identified in the portfolio. As such, management uses qualitative factors to adjust for events and circumstances that may impact the future expected credit loss. Qualitative adjustments include, but are not be limited to, factors such as: (i) changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices, (ii) changes in international, national, regional, and local conditions, (iii) changes in the nature and volume of the portfolio and terms of loans, (iv) changes in the experience, depth, and ability of lending management, (v) changes in the volume and severity of past due loans and other similar conditions, (vi) changes in the quality of the organization's loan review system, (vii) changes in the value of underlying collateral for collateral dependent loans, (viii) the existence and effect of any concentrations of credit and changes in the levels of such concentrations, (ix) the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses. Management reviews the need for an appropriate level of qualitative adjustments on a quarterly basis, and as such, the amount and allocation of qualitative adjustments may change in future periods.

Management disaggregated the Bank's loan portfolio into material segments of like-kind loans for collective evaluation. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the portfolio segments by Federal Call Code based on the underlying collateral and measures the allowance for credit losses. For reporting purposes, these Federal Call Codes are aggregated under the following portfolio segments:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate–Commercial – This segment is comprised of loans used to finance the acquisition of commercial real property. These loans are secured by first liens against the underlying real property. The inherent risk is driven by the borrower's capacity to service the debt combined with the value of the property collateral relative to the loan balance. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Real Estate–Construction – This segment is comprised of loans used to acquire, develop, and/or construct residential housing or commercial property types, including office, industrial and retail. Inherent risk is high as this segment evidences construction risk and absorption risk. Economic trends including consumer spending, consumer confidence, business confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair absorption and compromise the borrower's capacity to service the underlying debt.

Commercial – These loans are primarily for business purposes and are typically secured by personal property and in some cases by junior liens against real property. Credit risk is mitigated by financial covenants and financial reporting requirements. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Lease Financing – This segment is primarily comprised of smaller business purpose commitments used to finance an array of business equipment. Leases are amortized over a specific period of time. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Consumer – This segment is comprised of single family 1-4 residential mortgages, installment and home equity loans and lines used to finance direct consumer purchases and/or establish lines of credit for consumer purposes. Economic trends including consumer spending, consumer confidence, market interest rates, trends in housing values, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. When the discounted cash flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

The allowance for individually evaluated loans is calculated using either the collateral value method, which considers the likely source of repayment as the value of the collateral less estimated costs to sell, or the net present value method, which considers the contractual principal and interest terms and estimated cash flows available from the borrower to satisfy the debt. Nonaccrual modified loans are individually evaluated for credit loss except if the original interest rate is used to discount the expected cash flows, not the rate specified in the restructuring.

In general, management's estimate of the ACL on loans uses relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the relative risks in the portfolio, current economic conditions, and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the FDIC and the California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Loan Held for Sale and Servicing: Included in the portfolio are loans guaranteed by the Small Business Administration (SBA) that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market value. Fair value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is recorded at fair value with the Bank earning future servicing income. Gains and losses are recognized based on the difference between the selling price and the fair value of servicing assets or liabilities and the allocated carrying value of the loans sold. At

December 31, 2023 and 2022 the balance of loans originated and unsold under the SBA program totaled $15,696 and $5,926, respectively. Management has determined that the unsold loans originated through the SBA program were not material for disclosure as held for sale at December 31, 2023 and 2022.

Loans held for sale subsequently transferred to the loan portfolio are transferred at the lower of cost or fair value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at fair value and are subsequently amortized into non-interest income in proportion to and over the period of the related net servicing income or expense. SBA loans with unpaid balances of approximately $48,032 and $63,739 were being serviced for others at December 31, 2023 and 2022, respectively. Servicing assets at December 31, 2023 and 2022 and servicing fee income net of servicing rights amortization during the years ended December 31, 2023 and 2022 were not material for disclosure.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. 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. Management uses loss rates determined on the collective or pooled loan allowance for credit losses to estimate the exposure related to off-balance sheet. Commitments are similarly pooled as described above.

Other Real Estate Owned: Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of real estate owned, along with related expenses from operations, are charged to noninterest expense as incurred.

Bank Premises and Equipment: Bank premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line basis over the lesser of the life of the lease or the estimated useful lives of the assets, ranging from 3 to 10 years for furniture and equipment, 5 to 10 years for leasehold improvements and 10 to 40 years for premises. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank 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.

Retirement Plan and Postretirement Healthcare Plan: Effective as of June 30, 2023, the Bank completed the planned termination of its defined benefit pension plan. See Footnote 12. The pension plan covered all qualified personnel employed for the minimum required term of one year. Benefits were based on years of service and compensation projected to the separation date. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. It was the Bank's policy to contribute annually an amount at least equal to the minimum required by law. During 2007, the Plan was amended to freeze future benefit accruals for participants who had less than 15 years of service and age plus years of service less than 60. The plan was also amended to limit cost-of-living adjustments for continuing active participants. The amendments were expected to significantly reduce Plan liability and future net period pension costs.

In order to comply with ERISA requirements when the number of Plan participants fell below 50, effective December 31, 2016, the Plan was further amended to complete the freeze of future benefit accruals for all remaining Grandfathered Plan Participants (those plan participants that met the rule of eligibility during 2007 and continued to accrue plan benefits). Effective December 31, 2016, (the “Grandfathered Freeze Date”), Service, Credited Service, Average Compensation and Covered Compensation was frozen for the remaining Grandfathered Plan Participants. The changes described in the plan freeze above, only affected future benefits that had not yet accrued. They did not affect any benefits that both active and retired employees had already accrued and earned. Until termination, the Plan continued to operate as an ERISA qualified defined benefit plan, with the Bank maintaining a fiduciary obligation to manage the assets and provide future benefits to all active and retired plan participants and their beneficiaries under existing terms. The amendments as described above were expected to significantly reduce Plan liability and future net periodic pension costs.

In addition, the Bank sponsored a defined benefit postretirement healthcare plan that covered both salaried and non-salaried employees. The Plan provides medical benefits through health maintenance organizations. The Plan is funded by a voluntary employee beneficiary association (VEBA) trust maintained by the Bank. The contribution level for a retiree is based on a percentage of premium that varies according to the retiree's years of service with the Bank. The Bank's contribution for dependents is 50% of the Bank's share of the retiree's annual premium. The portion paid by the Bank is limited to 200% of the 1991 premium. Future cost-sharing plans are not expected to change from the current stated policy in the written plan. In addition, for the group of retirees that retired prior to January 1, 1991, the retiree medical benefit will be paid fully by the Bank for the life of the retiree and dependent. For employees retiring prior to January 1, 1992, or active employees with more than 25 years of service as of December 31, 1991, the 200% limit on lifetime benefits will not apply and the Bank will pay 100% of the retiree's premium and 50% of the dependent's premium. Effective December 31, 2007, the Plan was amended to cover only active employees who had at least 15 years of service and age plus years of service more than 60. The Plan was also amended to limit the maximum reimbursement amount to grandfathered retirees. As of November 1, 2021, the Plan was amended and is no longer a fully insured medical plan nor a self-funded dental and vision plan for its retirees. After the amendment, the Plan consists of individual retiree health reimbursement accounts to help eligible retirees pay for medical, dental, vision and prescription drug plans. The amendments are expected to significantly reduce Plan liability and future net period costs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postretirement Benefits: The Bank has established deferred compensation and salary continuation agreements providing nonqualified defined benefit retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased single premium life insurance policies on each participant. The salary continuation agreements are accounted for by accruing a liability based upon the present value of each individual's benefit at retirement age and recognizing the related cost of these benefits over the term of employment. The single payment premium for the life insurance policies is recorded based on the cash surrender values of the policies adjusted for income earned on the investment and expense related to mortality costs.

The Bank also has endorsement split-dollar life insurance agreements with certain employees whereby the Bank has effectively agreed to maintain a life insurance policy during the employees' postretirement period.

The Bank is accruing, over the employees' service period, a liability for the actuarial present value of future costs to maintain life insurance during the employees' postretirement period.

Income Taxes: Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon their analysis of available evidence, management determined that it is "more likely than not" that all of the deferred income tax assets as of December 31, 2023 and 2022 will be fully realized and therefore no valuation allowance was recorded.

The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: Earnings per common share is computed by dividing net income by the weighted average number of shares outstanding during the year, which was 1,714,344 for 2023 and 2022, respectively. There were no dilutive shares or share equivalents.

Comprehensive Income: Comprehensive income includes net income and other comprehensive income. Other comprehensive income for the Bank includes unrealized gains and losses on investment securities classified as available-for-sale, and changes in the funded status of defined benefit pension plans and the deferred compensation trust.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising: Advertising costs are charged to expense in the period incurred and totaled $1,121 and $869 for the years ended December 31, 2023 and 2022, respectively.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Subsequent Events: The Bank reviewed all events occurring from December 31, 2023 through March 20, 2024, the date the financial statements were available to be issued. There were no subsequent events that were considered necessary for disclosure and there were no subsequent events requiring accrual.

Impact of New Accounting Standards:

ASU 2016-13, Financial Instruments – Credit Losses. In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. 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. The Bank adopted ASU 2016-13 on January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost such that prior period amounts were not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles ("GAAP"). The adoption was considered immaterial.

ASU 2022-02, Financial Instruments – Credit Losses. Troubled Debt Restructurings and Vintage Disclosures was issued in March 2022. The ASU eliminates the accounting guidance for TDR loans by creditors while enhancing requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulties. The Bank adopted ASU 2022-02 as of January 1, 2023 and considered the adoption immaterial.

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

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 liability.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Assets Recorded at Fair Value - The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2022 and 2021:

Recurring Basis

	2023			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 562,381	$ -	$ 562,381	$ -
Obligations of states and political subdivisions	239,424	-	239,424	-
Government sponsored entities residential mortgage-backed securities	675,766	-	675,766	-
U.S. Treasuries	13,676	-	13,676	-
Other securities	6,198	-	6,198	-
Total assets measured at fair value	$ 1,497,445	$ -	$ 1,497,445	$ -

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

	2022			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 542,473	$ -	$ 542,473	$ -
Obligations of states and political subdivisions	244,619	-	244,619	-
Government sponsored entities residential mortgage-backed securities	752,911	-	752,911	-
U.S. Treasuries	29,500	-	29,500	-
Other securities	6,145	-	6,145	-
Total assets measured at fair value	$ 1,575,648	$ -	$ 1,575,648	$ -

Fair values for available-for-sale investment securities are based on quoted market prices for similar securities.

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

	2023			
	Fair Value	Level 1	Level 2	Level 3
Collateral dependent loans:				
Real estate – commercial	$ 3,009	$ -	$ -	$ 3,009
Commercial	3,937	-	-	3,937
Lease financing	46	-	-	46
Consumer	552	-	-	552
Total assets measured at fair value on a non-recurring basis	$ 7,544	$ -	$ -	$ 7,544

	2022			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate – commercial	$ 278	$ -	$ -	$ 278
Commercial	962	-	-	962
Lease financing	86	-	-	86
Consumer	2,635	-	-	2,635
Total assets measured at fair value on a non-recurring basis	$ 3,961	$ -	$ -	$ 3,961

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Individually evaluated loans that are collateral dependent and have been adjusted to fair value based on the estimated fair value of the underlying collateral, less estimated selling costs. If the Bank determines that the value of these loans is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for credit losses. Total loss of $5 represents charges recognized on collateral dependent loans during the year ended December 31, 2023. For the year ended December 31, 2022, total losses of $5 represents impairment charges recognized on impaired loans during the year.

Management used the following methods to estimate the fair value of each class of assets above:

Income Approach: Fair value is determined based on a discounted cash flow analysis. For loans that exhibited some characteristics of performance and where it appears that the borrower may have adequate cash flows to service the loan, we used a discounted cash flow analysis. The discounted cash flow analysis was based on the contractual maturity of the loan and market indications of rates, prepayment speeds, defaults and credit risk. Loans with balloon or interest only payment structures, we extended the repayment period beyond the current contractual maturity date.

Collateral Value Approach: Fair value is determined based on the estimated values of the underlying collateral. For collateral dependent loans, management uses the estimated net sales proceeds to determine the fair value of the loans when deemed appropriate. The implied sales proceeds value provides a better indication of value than the income stream as these loans are not performing or exhibit strong signs indicative of non-performance.

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for collateral dependent loans measured at fair value on a non-recurring basis at December 31, 2023:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 3,009	Collateral Value/ Appraisal approach	a. Management adjustments based on net present values.	0.20 to 9.90%
Commercial	$ 3,937	Collateral Value/ Appraisal approach	a. Management adjustments based on net present values.	0.00% to 25.10%
		Collateral Value/ Appraisal approach	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	49.58%
Leasing	$ 46	Collateral Value/ Appraisal approach	a. Personal property collateral is discounted based on management's assessment of loss given default	8.00 to 17.00%
Consumer	$ 552	Liquidation Value	a. Adjustments can range up to 25% of liquidation costs plus 15% for related expenses.	2.40% to 32.60%
		Collateral Value/ Appraisal approach	b. Personal property collateral is discounted based on management's assessment of loss given default	1.05%

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for impaired financial instruments measured at fair value on a non-recurring basis at December 31, 2022:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 278	Management estimates	a. Management adjustments based on net present value of cash flows.	0.54 to 4.94%
Commercial	$ 962	Management estimates	a. Management adjustments based on net present value of cash flows.	0.79% to 17.13%
		Management estimates	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	49.58%
Leasing	$ 86	Management estimates	a. Personal property collateral is discounted based on management's assessment of loss given default	100.00%
Consumer	$ 2,635	Liquidation Value	a. Adjustments can range up to 25% of liquidation costs plus 15% for related expenses.	25.00% to 39.74%
		Management estimates	b. Personal property collateral is discounted based on management's assessment of loss given default	1.05%

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments: The estimated carrying amounts and fair values of the Bank's financial instruments are as follows:

December 31, 2023	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 89,611	$ 89,611	$ -	$ -	$ 89,611
Available-for-sale securities	1,497,445	-	1,497,445	-	1,497,445
FHLB stock	15,000	N/A	N/A	N/A	N/A
Loans and leases, net	1,553,409	-	-	1,512,866	1,512,866
Accrued interest receivable	12,170	6,007	265	5,898	12,170
Financial liabilities:					
Deposits	$ 2,838,627	$ 2,467,488	$ 371,139	$ -	$ 2,838,627
Accrued interest payable	917	270	647	-	917

December 31, 2022	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 48,373	$ 48,373	$ -	$ -	$ 48,373
Interest-bearing deposits In banks	1,000	1,000	-	-	1,000
Available-for-sale securities	1,575,648	-	1,575,648	-	1,575,648
FHLB stock	15,000	N/A	N/A	N/A	N/A
Loans and leases, net	1,466,368	-	-	1,448,571	1,448,571
Accrued interest receivable	11,580	6,263	265	5,052	11,580
Financial liabilities:					
Deposits	$ 3,066,281	$ 2,910,822	$ 155,459	$ -	$ 3,066,281
Accrued interest payable	427	356	71	-	427

Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2023 and 2022 consisted of the following:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 626,486	$ -	$ (64,105)	$ 562,381
Obligations of states and political subdivisions	259,592	191	(20,357)	239,426
Government sponsored entities residential mortgage-backed securities	747,731	4	(71,970)	675,765
U.S. Treasuries	13,563	115	(3)	13,675
Other securities	6,669	-	(471)	6,198
	$ 1,654,041	$ 310	$ (156,906)	$ 1,497,445

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 629,043	$ -	$ (86,570)	$ 542,473
Obligations of states and political subdivisions	273,952	14	(29,347)	244,619
Government sponsored entities residential mortgage-backed securities	842,836	2	(89,927)	752,911
U.S. Treasuries	29,770	-	(270)	29,500
Other securities	6,834	-	(689)	6,145
	$ 1,782,435	$ 16	$ (206,803)	$ 1,575,648

Net unrealized gains (losses) on available-for-sale investment securities totaling $(156,596) and $(206,787) were recorded, net of $46,296 and $61,134 in deferred tax assets (liabilities), as accumulated other comprehensive income within stockholders' equity at December 31, 2023 and 2022, respectively. Management determined no allowance for credit loss was required for the available-for-sale investment securities portfolio as of December 31, 2023. There were no sales of available-for-sale investments during the years ended December 31, 2023 and 2022. There were no transfers of available-for-sale investment securities for the years ended December 31, 2023 and 2022. There were no holdings of securities of any one issuer, other than the US Government and it’s agencies, which exceeds 10% of the stockholders’ equity as of December 31, 2023 and 2022.

(Continued)

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Available-for-sale investment securities with unrealized losses at December 31, 2023 and 2022 are summarized and classified according to the duration of the loss period as follows:

	2023		2022	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Less than twelve months:				
U.S. Government agencies	$ 30,358	$ (636)	$ 69,379	$ (3,511)
Obligations of states and political subdivisions	12,282	(103)	134,702	(9,872)
Government guaranteed mortgage backed securities	9,894	(143)	372,676	(27,416)
U.S. Treasury	13,675	(3)	29,500	(270)
Other securities	-	-	-	-
Greater than twelve months:				
U.S. Government agencies	$ 532,023	$ (63,469)	$ 473,091	$ (83,059)
Obligations of states and political subdivisions	227,144	(20,254)	106,617	(19,475)
Government guaranteed mortgage backed securities	665,871	(71,827)	380,029	(62,512)
U.S. Treasury	-	-	-	-
Other securities	6,198	(471)	6,145	(688)
	$ 1,497,445	$ (156,906)	$ 1,572,139	$ (206,803)

U.S. Treasury and U.S. Government Agencies: The Bank holds 236 securities issued by U.S. Treasury and U.S Government Agencies, of which 2 have been in a continuous loss position for less than 12 months and 231 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in U.S. Treasuries and Government agencies are caused by the fluctuation in interest rates and are not attributable to changes in credit quality. Management intends to hold these investments until at least a recovery of fair value or until maturity. Because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, management does not consider these investments to have credit-related impairment at December 31, 2023.

Obligations of States and Political Subdivisions: The Bank holds 401 securities issued by state and political subdivisions, of which 7 have been in a continuous loss position for less than 12 months and 382 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in obligations of states and political subdivisions are a result of the fluctuation in interest rates. The contractual cash flows of these investments are considered a general obligation of, or supported by specific revenues of, a state or local municipality and the Bank intends to hold these investments until at least a recovery of fair value or until maturity. Therefore, the Bank expects to collect all amounts due, and because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, management does not consider these investments to have credit-related impairment at December 31, 2023.

(Continued)

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Government Guaranteed Mortgage Backed Securities: The Bank holds 285 Government Guaranteed Mortgage Backed Securities, of which 1 have been in a continuous loss position for less than 12 months and 272 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in government guaranteed mortgage backed securities is caused by the fluctuation in interest rates and is not attributable to changes in credit quality. Management intends to hold these investments until at least a recovery of fair value or until maturity. Because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, management does not consider these investments to have credit-related impairment at December 31, 2023.

Other Securities: Management continually evaluates the portfolio for credit issues that it believes may have an impact on the ability to fully recover the amortized cost basis of the bond and would therefore be considered a permanent impairment. The Bank holds 3 corporate bonds, of which none have been in a continuous loss for less than 12 months and 3 which have been in a continuous loss position for 12 months or longer. Management believes the unrealized losses on the Bank's investment in corporate bonds is caused by the fluctuation in interest rates and is not attributable to changes in credit quality. The Bank does not have the intent to sell these securities and it is likely it will not be required to sell the securities before their anticipated recovery, management does not consider the remaining investments to have credit-related impairment at December 31, 2023.

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to call or prepay obligations with or without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	$ 49,323	$ 48,581
After one year through five years	484,406	446,139
After five years through ten years	282,774	245,569
After ten years	89,808	81,390
	906,311	821,679
Investment securities not due at a single maturity date:		
Government sponsored entities mortgage-backed securities	747,730	675,766
	$ 1,654,041	$ 1,497,445

Investment securities with amortized costs of $209,181 and $210,892 and fair values of $194,054 and $190,353 as of December 31, 2023 and 2022, respectively, were pledged to secure public and trust deposits. Of that total, securities with amortized costs of $12,815 and $12,458 and fair values of $12,886 and $12,458 as of December 31, 2023 and 2022, respectively, were pledged specifically to secure bankruptcy trust deposits. Additional pledging of the portfolio is done for FRB and FHLB borrowing arrangements (see Note 8) and for other purposes required or permitted by law.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES

The Bank originates loans in the ordinary course of business. In addition to originating loans, the Bank may also purchase loans through pool purchases or participation purchases.

Loans and leases are reported net of deferred loan origination fees and costs of $1,540 in 2023 and $1,865 in 2022 and consist of the following at December 31:

	2023	2022
Real estate – commercial	$ 844,626	$ 747,386
Real estate – construction	113,445	110,853
Commercial	134,244	163,940
Lease financing	6,795	15,819
Consumer	495,567	471,910
Total	1,594,677	1,509,908
Less: Allowance for credit losses	(41,268)	(43,540)
	$ 1,553,409	$ 1,466,368

The components of the Bank's leases receivable at December 31 are as follows:

	2023	2022
Future lease payments receivable	7,056	16,624
Deferred broker costs	90	258
Unearned income	(351)	(1,063)
Net lease financing receivable	$ 6,795	$ 15,819

Future lease payments receivable are as follows:

Year Ending December 31,	
2024	$ 1,395
2025	3,149
2026	2,392
2027	120
	$ 7,056

The Bank's loan portfolio has been pledged to secure borrowing arrangements (see Note 8).

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

On January 1, 2023, the Bank adopted ASC 326 (current expected credit loss CECL methodology), The disclosures for 2023 are reported under the new methodology, whereas 2022 disclosures are reported under the Bank's former incurred loss methodology.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	December 31, 2023					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance, prior to adoption of ASC 326	$ 28,090	$ 2,492	$ 3,959	$ 632	$ 8,367	$ 43,540
Impact of adopting ASC 326	(5,327)	7,025	93	(245)	(1,546)	-
Amount reclassified to establish off balance sheet reserve	(4,911)	2,036	(1,143)	(236)	2,174	(2,080)
Credit loss expense	-	-	-	-	-	-
Loans charged-off	-	-	(238)	(163)	(174)	(575)
Recoveries	-	63	66	127	127	383
Total ending allowance balance	$ 17,852	$ 11,616	$ 2,733	$ 115	$ 8,952	$ 41,268

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2023 and 2022, respectfully:

	December 31, 2023					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ 2,335	$ -	$ 2,447	$ 4,782	$ 839,844	$ 844,626
Real estate – construction	399	-	-	399	113,046	113,445
Commercial	137	-	715	852	133,392	134,244
Lease financing	51	-	44	95	6,700	6,795
Consumer	1,123	-	993	2,116	493,451	495,567
Total	$ 4,045	$ -	$, 4,199	$ 8,244	$ 1,586,433	$1,594,677

The Bank has allocated $211 of specific allowance for credit losses on non-accrual loans as of December 31, 2023.

	December 31, 2022					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ -	$ -	$ 918	$ 918	$ 746,468	$ 747,386
Real estate – construction	-	-	-	-	110,853	110,853
Commercial	18	-	1,673	1,691	162,249	163,940
Lease financing	-	-	151	151	15,668	15,819
Consumer	270	-	412	682	471,228	471,910
Total	$ 288	$ -	$ 3,154	$ 3,442	$1,506,466	$1,509,908

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following tables show information related to impaired loans at for the years ended December 31, 2022:

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate – commercial	$ 1,673	$ 1,832	$ -	$ 1,046	$ -
Commercial	$ 758	$ 1,032	$ -	$ 775	$ 17
Lease financing	$ 23	$ 23	$ -	$ 25	$ 2
Consumer	$ 409	$ 725	$ -	$ 412	$ 7
With an allowance recorded:					
Real estate – commercial	$ 282	$ 282	$ 4	$ 373	$ 22
Commercial	$ 1,159	$ 1,169	$ 197	$ 1,238	$ 55
Lease financing	$ 151	$ 151	$ 65	$ 183	$ -
Consumer	$ 2,694	$ 2,694	$ 59	$ 2,725	$ 69
Total:					
Real estate – commercial	$ 1,955	$ 2,114	$ 4	$ 1,419	$ 22
Commercial	$ 1,917	$ 2,201	$ 197	$ 2,013	$ 72
Lease financing	$ 174	$ 174	$ 65	$ 208	$ 2
Consumer	$ 3,103	$ 3,419	$ 59	$ 3,137	$ 76

Included in the impaired loans above are 19 loans in the amount of $6,018 that were considered to be troubled debt restructurings at December 31, 2022.

For the years ended December 31, 2022, the average recorded investment in impaired loans was $6,777. The Bank had $325 of specific allowance for credit losses on impaired loans at December 31, 2022. Interest income on a cash basis was not significant. The impact of interest on non-accrual loans reflects a net loss of $258 for the year ended December 31, 2022,

Salaries and employee benefits totaling $1,327 and $2,108 have been deferred as loan and lease origination costs for the years ended December 31, 2023 and 2022, respectively.

Occasionally, the Bank modifies loans to borrowers in financial distress by providing modifications, including but not limited to principal forgiveness, term extension, or interest rate reduction. In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension is granted initially. If the borrower continues to experience financial difficulty, another concession, such as interest rate reduction, may be granted. In 2023, the Bank had no such modifications.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following tables show the activity of the allowance for loan and lease losses for the year ended December 31, 2022 by portfolio segment, and the allocation of the allowance for loan and lease losses by portfolio segment and by impairment methodology:

	December 31, 2022					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance	$ 28,919	$ 2,091	$ 4,399	$ 1,207	$ 7,231	$ 43,847
Provision for loan and lease losses	(829)	367	(319)	(567)	1,348	-
Loans charged-off	-	-	(184)	(289)	(291)	(764)
Recoveries	-	34	63	281	79	457
Ending balance allocated to portfolio segments	$ 28,090	$ 2,492	$ 3,959	$ 632	$ 8,367	$ 43,540
Ending balance: individually evaluated for impairment	$ 4	$ -	$ 197	$ 65	$ 59	$ 325
Ending balance: collectively evaluated for impairment	$ 28,086	$ 2,492	$ 3,762	$ 567	$ 8,308	$ 43,215
Loans						
Ending balance	$ 747,386	$ 110,853	$ 163,940	$ 15,819	$ 471,910	$1,509,908
Ending balance: individually evaluated for impairment	$ 1,955	$ -	$ 1,917	$ 174	$ 3,103	$ 7,149
Ending balance: collectively evaluated for impairment	$ 745,431	$ 110,853	$ 162,023	$ 15,645	$ 468,807	$1,502,759

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2022:

	December 31, 2022 Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Total
Grade:					
Pass	$ 733,472	$ 95,885	$ 161,023	$ 15,496	$ 1,005,876
Special Mention	10,813	5,903	421	90	17,227
Substandard	3,101	9,065	2,496	233	14,895
Total	$ 747,386	$ 110,853	$ 163,940	$ 15,819	$ 1,037,998

	December 31, 2022 Consumer Credit Exposure Credit Risk Profile Based on Payment Activity	
	Consumer	Total
Grade:		
Performing	$ 466,139	$ 466,139
Non-performing	5,771	5,771
Total	$ 471,910	$ 471,910

The Bank has allocated $325 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022. The Bank has no commitment to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings, as of December 31, 2022. There were no modifications to loans for borrowers in financial distress during the year ended December 31, 2023.

During the periods ending December 31, 2022, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 5 years. Modifications involving an extension of the maturity date were for periods ranging from 6 months to 24 months.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the period ended December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	1	$ 1,774	$ 1,673
Real estate – construction	-	-	-
Commercial	2	832	818
Lease financing	-	-	-
Consumer	2	11	11
Total	5	$ 2,617	$ 2,502

The troubled debt restructurings described above increased the allowance for loan losses by $43 and resulted in $0 in charge offs during the period ended December 31, 2022.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended December 31, 2022:

	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real Estate – Commercial	1	$ 1,673
Commercial	1	275
Consumer	1	3
Total	3	$ 1,951

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification.

The Bank assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Bank and the Bank's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

NOTE 4 – LOANS AND LEASES (Continued)

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard

have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following table presents loans by origination year and risk grade as of the year ended December 31, 2023.

As of December 31, 2023	Term Loans Cost Basis by Origination Year					
Real Estate - Commercial	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	136,964	114,407	114,393	462,910	2,784	831,458
Special Mention	-	-	1,540	7,789	-	9,329
Substandard	-	-	-	3,839	-	3,839
Total	136,964	114,407	115,933	474,538	2,784	844,626
Real Estate - Commercial Current Period Gross write offs	-	-	-	-	-	-
Real Estate - Construction	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	18,398	39,336	30,763	9	20,848	109,354
Special Mention	3,578	-	-	-	-	3,578
Substandard	-	-	513	-	-	513
Total	21,976	39,336	31,276	9	20,848	113,445
Real Estate - Construction Current Period Gross write offs	-	-	-	-	-	-
Commercial	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	22,920	8,380	8,498	21,018	67,412	128,228
Special Mention	-	-	28	2,967	-	2,995
Substandard	-	50	-	2,971	-	3,021
Total	22,920	8,430	8,526	26,956	67,412	134,244
Commercial Current Period Gross write offs	-	-	-	154	20	174
Lease Financing	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	-	-	2,350	4,350	-	6,700
Special Mention	-	-	-	51	-	51
Substandard	-	-	44	-	-	44
Total	-	-	2,394	4,401	-	6,795
Lease Financing Current Period Gross write offs	-	-	55	108	-	163
Consumer	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	70,674	108,143	87,018	136,254	88,581	490,670
Special Mention	-	-	-	2,303	-	2,303
Substandard	59	469	168	1,898	-	2,594
Total	70,733	108,612	87,186	140,455	88,581	495,567
Consumer Current Period Gross write offs	9	32	108	18	71	238
Total Loans	252,593	270,785	245,315	646,359	179,625	1,594,677

(Continued)

(In thousands, except per share amounts)

NOTE 5 – FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to own capital stock in an amount specified by regulation. At December 31, 2023 and 2022, the Bank owned 150,000 and 150,000 shares of $100 par value FHLB stock respectively. The stock is carried at cost and is redeemable at par with certain restrictions. The amount of stock required to be held is adjusted periodically based on a determination made by the FHLB.

NOTE 6 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31 consist of the following:

	2023	2022
Land	$ 3,423	$ 3,423
Buildings	32,117	31,872
Leasehold improvements	6,452	6,198
Equipment	18,260	21,038
Construction in progress	1,120	227
	61,372	62,758
Less: accumulated depreciation and amortization	(43,900)	(45,541)
	$ 17,472	$ 17,217

Depreciation and amortization expense were $2,278 and $2,243 for the years ended December 31,2023 and 2022, respectively.

NOTE 7 – INTEREST-BEARING DEPOSITS

Interest-bearing deposits at December 31 consisted of the following:

	2023	2022
Savings	$ 531,292	$ 706,092
Money market	485,322	392,223
NOW accounts	473,448	622,765
Time, $250,000 or more	129,484	51,170
Other time	241,655	104,289
	$ 1,861,201	$ 1,876,539

The Bank's other time deposits included reciprocal deposits which totaled $141,433 or 5.0% and $2,701 or 0.1% of total deposits, respectively, at December 31, 2023 and 2022. Reciprocal deposits were under the Certificate of Deposit Account Registry Service (CDARS) program and IntraFi Cash Services, which allows the Bank's deposit customers to have the entire balance of their deposit account insured by the FDIC. There were no wholesale brokered deposits at December 31, 2023 and 2022.

(Continued)

(In thousands, except per share amounts)

NOTE 7 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits at December 31, 2023 are as follows:

Year Ending December 31,	
2024	346,623
2025	20,257
2026	3,461
2027	623
2028	175
	$ 371,139

NOTE 8 – BORROWINGS

Federal Home Loan Bank Advances: The Bank may borrow from the Federal Home Loan Bank, on either a short-term or long-term basis, up to 30% of its assets provided that adequate collateral has been pledged. As of December 31, 2023, the Bank has pledged investment securities with a carrying value of $309,045 and loans with a carrying value of $1,098,723 to secure this borrowing arrangement. There were $0 and $20,000 outstanding advances from the Federal Home Loan Bank of San Francisco at December 31, 2023 and 2022 respectively. The December 31, 2022 $20,000 outstanding advance had a daily maturity with a variable rate of 4.59%

Federal Reserve: The Bank may borrow from the Federal Reserve, Bank Term Funding Program loans up to one year in length, pledging qualifying assets as collateral. There were $225,000 and $0 outstanding loans from the Federal Reserve Bank of San Francisco at December 31, 2023 and 2022 respectively. The December 31, 2023 $225,000 loan had a maturity date of December 20, 2024 with a rate of 4.850%. The Bank also has a secured line of credit as of December 31, 2023 of $27,800.

Lines of Credit: The Bank has an unsecured line of credit of $50,000 and $50,000 with its correspondent bank, Pacific Coast Banker's Bank as of December 31, 2023 and 2022; and a $10,000 and $10,000 unsecured line of credit with its correspondent bank, Wells Fargo as of December 31, 2023 and 2022 respectively. There are no outstanding balances at December 31, 2023 and 2022.

As of December 31, 2023, the Bank had total available borrowing capacity of $1,598,634.

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES

The expense (benefit) from income taxes for the years ended December 31, 2023 and 2022 consisted of the following:

	Federal	State	Total
2023			
Current	$ 9,659	$ 5,693	$ 15,352
Deferred	(5,071)	(2,762)	(7,833)
Provision for income taxes	$ 4,588	$ 2,931	$ 7,519
2022			
Current	$ 7,952	$ 3,774	$ 11,726
Deferred	484	396	880
Provision for income taxes	$ 8,436	$ 4,170	$ 12,606

Deferred tax assets (liabilities) are included in accrued interest receivable and other assets and are comprised of the following at December 31, 2023 and 2022:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 12,779	$ 12,827
Deferred compensation	4,406	4,932
Postretirement benefits	1,147	1,477
Restructuring reserve	-	-
Nonaccrual interest	221	182
State taxes	1,073	979
Deferred gain	202	271
Bank premises and equipment	1,134	848
Amortization of trust assets	114	117
Lease liability	2,265	2,427
Unrealized losses on available for sale investment securities	46,296	61,134
Other	274	416
Total deferred tax assets	69,911	85,610
Deferred tax liabilities:		
Deferred loan costs	(469)	(669)
Prepaid expenses	(21)	(158)
Pension expenses	(1,424)	(6,581)
FHLB stock dividends	(272)	(272)
Right of Use asset	(2,265)	(2,427)
Other	(85)	(213)
Total deferred tax liabilities	(4,536)	(10,320)
Net deferred tax assets	$ 65,375	$ 75,290

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES (Continued)

The effective tax rate, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

	Year Ended December 31,	
	2023	2022
Federal income tax expense, at statutory rate	21.0%	21.0%
State franchise tax, net of Federal tax effect	8.4	6.6
Tax-exempt interest on obligations of states and political subdivisions	(1.8)	(1.0)
Cash surrender value of life insurance	(1.7)	(1.2)
Tax credits	(0.9)	(0.1)
Other	(0.4)	
Nondeductible Excise Tax	2.6	(0.1)
Effective tax rate	27.2%	25.2%

The Bank files income tax returns in the United States jurisdiction and the State of California jurisdiction. The Bank is no longer subject to Federal income tax examinations by tax authorities for years before 2020. The Bank is no longer subject to California income tax examinations by tax authorities for years before 2019.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2023 and 2022, the Bank recognized no interest or penalties.

(In thousands, except per share amounts)

NOTE 10 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers during 2023:

Balance, January 1, 2023	$ 11,144
Disbursements	13,034
Amounts repaid	(14,515)
Change in relationship	-
Balance, December 31, 2023	$ 9,663
Undisbursed commitments to related parties, December 31, 2023	$ 7,664

(Continued)

(In thousands, except per share amounts)

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following is changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2023 and 2022:

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2023				
Beginning Balance	$ (145,652)	$ (7,908)	$ (101)	$ (153,661)
Amounts reclassified from accumulated other comprehensive income	-	(64)	-	(64)
Net current period other comprehensive income (loss)	35,350	6,415	220	41,985
Ending balance	$ (110,302)	$ (1,557)	$ 119	$ (111,740)

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2022				
Beginning Balance	$ (4,566)	$ (3,251)	$ 413	$ (7,404)
Amounts reclassified from accumulated other comprehensive income	-	(63)	-	(63)
Net current period other comprehensive income (loss)	(141,086)	(4,594)	(514)	(146,194)
Ending balance	$ (145,652)	$ (7,908)	$ (101)	$ (153,661)

(Continued)

(In thousands, except per share amounts)

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2023:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	$ (50)	Other expense
	(14)	Provision for income taxes
	$ (64)	Net of tax

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2022:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	$ (50)	Other expense
	(13)	Provision for income taxes
	$ (63)	Net of tax

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN

Effective as of June 30, 2023, the Bank completed the planned termination of its defined benefit pension plan (the Plan). The final cash moved from the pension plan on July 3 and July 5, 2023. In connection with the termination of the Plan, the Bank settled all of its obligations to retirees and certain active employees who were once a part of the now terminated Plan. All former Plan members were made completely whole through either lump-sum distributions or the provision of individual annuities. Subsequent to the distribution, the plan had $22,484 in remaining cash.

The Bank booked a loss as a result of the termination as follows:

Prepaid pension asset	$30,882
Cash remaining in plan	22,484
Book loss on termination	$ 8,398

For tax purposes, the Bank set aside 25% or $5,621 of the cash proceeds in a qualified replacement plan to take advantage of reduced excise tax levels, this amount is included in Other Assets. The cash set aside in the qualified replacement plan will be used to satisfy up to seven years of profit-sharing plan contributions. The remaining cash of $16,863 was reverted to the Bank and considered excess assets; as such, it was subject to the 20% excise tax.

In addition to the book loss as referenced above, the Bank reversed the impact of accumulated other comprehensive income and deferred tax components as noted on December 31, 2022:

Accumulated other comprehensive income	$	5,834
Deferred tax assets		2,449
Deferred tax liabilities		(8,283)

The following presents the reconciliations of plan benefit obligations and plan assets for the year ended December 31, 2022. The Bank used a December 31, 2022 measurement date for the Plan.

		2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$	49,475
Service cost		-
Interest cost		1,446
Benefits paid		(2,693)
Actuarial (gain) loss		(8,021)
Benefit obligation at end of year	$	40,207
Change in plan assets:		
Fair value of plan assets at beginning of year	$	75,727
Employer contribution		-
Benefits and expenses paid		(2,693)
Actual return on plan assets		(10,567)
Fair value of plan assets at end of year	$	62,467
Funded status at end of year	$	22,260

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

Amounts recognized in accumulated other comprehensive income at December 31, 2022 consist of:

	2022
Net actuarial loss	$ 8,284
Prior service cost (credit)	-
	$ 8,284

The accumulated benefit obligation was $40,207 at December 31, 2022.

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2022.

2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents	$ 24,877	$ 24,877	$ -	$ -
Equity securities:				
U.S. large-cap (a)	4,620	4,620	-	-
U.S. small-cap (b)	720	720	-	-
International large-cap (c)	1,477	1,477	-	-
Fixed income securities:				
U.S. corporate bond funds (e)	6,900	6,900	-	-
U.S. Total Bond Market fund (f)	23,873	23,873	-	-
Total	$ 62,467	$ 62,467	$ -	$ -

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500, as well as actively managed funds that track the Russell 100 value index.
(b) This category represents low-cost actively managed and broadly diversified U.S. small cap equity funds.
(c) This category represents low cost index enhanced and broadly diversified Non U.S. large cap international funds.
(d) This category represents individual government agency fixed income debentures of a short to intermediate term to maturity.
(e) This category represents low-cost actively managed U.S. investment grade bond funds.
(f) This category represents a low-cost bond index fund passively managed to track the broad U.S. fixed income markets.

The fair values for equity securities and mutual funds are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). Certain debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The allocation by asset category of the pension plan assets at December 31, 2022 is as follows:

	2022
Asset category:	
Equity	11%
Fixed income	49%
Other	40%
Total	100%

The primary investment objective for the Plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality and diversification guidelines and restrictions approved by the retirement committee. The asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies with the goal to enhance the expected return of the retirement portfolio while maintaining acceptable levels of risk.

The components of 2022 net periodic benefit cost are as follows:

	2022
Service cost	$ -
Interest cost	1,446
Expected return on plan assets	(4,283)
Amortization of unrecognized prior service cost	-
Recognized prior service cost due to curtailment	-
Amortization of unrecognized actuarial loss	-
Total net periodic cost	$ (2,837)
Net (gain) loss, including curtailment	$ 6,829
Prior service cost	-
Amortization of prior service cost	-
Amortization of net gain (loss)	-
Total recognized in other comprehensive income	6,829
Total recognized in net periodic cost (income) and other comprehensive income	$ 3,992

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

The weighted average assumptions used to determine benefit obligations at December 31, 2022:

	2022
Discount rate	5.23%
Rate of compensation increase	N/A

The weighted average assumptions used to determine net periodic benefit cost at December 31, 2022:

	2022
Discount rate	3.00%
Rate of compensation increase	N/A
Expected return of plan assets	5.75%

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN

The following presents the postretirement healthcare plan's combined funded status:

	2023	2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,533	$ 6,038
Service cost	20	19
Plan Amendment	-	-
Interest cost	5	2
Benefits paid	(540)	(486)
Plan participant contribution	-	-
Actuarial (gain) loss	(59)	(40)
Benefit obligation at end of year	$ 4,959	$ 5,533
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 5,540	$ 5,891
Other payments	384	(1)
Plan participant contribution	-	-
Benefits paid	(540)	(486)
Employer contribution	9	53
Actual return on plan assets	273	83
Fair value of plan assets at end of year	$ 5,666	$ 5,540
Plan assets less benefit obligation at end of year	$ 707	$ 7

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2023	2022
Net actuarial loss	$ 1,476	$ 2,157
Prior service cost	734	785
	$ 2,210	$ 2,942

The accumulated benefit obligation was $4,959 and $5,533 at December 31, 2023 and 2022. The Bank does not expect to contribute to the Plan in 2024.

	2023	2022
Components of net periodic benefit cost:		
Service cost	$ 20	$ 20
Interest cost	5	2
Expected return on plan assets	(132)	(56)
Loss (gain)	99	101
Amortization of unrecognized prior service cost	50	50
Total net periodic benefit cost	$ 42	$ 117

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

	2023	2022
Net loss (gain)	$ (583)	$ (67)
Amortization of net (gain) loss	(99)	(101)
Prior Service costs	-	-
Amortization of prior service cost	(50)	(50)
Total recognized in other comprehensive income	(732)	(218)
Total recognized in net periodic (income) cost and other comprehensive income	$ (690)	$ (101)

The following table represents the assumed health care trend rates at December 31:

	2023	2022
Health care trend rate assumed for next year	5.50%	5.50%
Rate to which the cost trend rate is assumed to decline	5.50%	5.50%
Year that the rate reaches the ultimate trend rate	2010	2010

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2023 and 2022.

2023	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 5,666	$ 5,666	$ -	$ -
Total	$ 5,666	$ 5,666	$ -	$ -

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 5,540	$ 5,540	$ -	$ -
Total	$ 5,540	$ 5,540	$ -	$ -

The fair values for equity securities and mutual funds are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). Certain debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities" relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

As of November 1, 2022, the Plan was amended and is no longer a fully-insured medical plan nor a self-funded dental and vision plan for its retirees. After the amendment, the plan consists of individual retiree health reimbursement accounts to help eligible retirees pay for medical, dental, vision and prescription drug plans.

For the plan amendment, all investments were converted to cash. The Plan will only hold cash going forward.

Stated are the maximum and minimum asset allocation levels at market for each asset category as well as the weighted average expected return for each asset class.

	Policy	Weighted Average Expected Return
Cash and equivalents	100%	0%

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

The allocation by asset category of the postretirement healthcare plan assets at December 31 is as follows:

	2023	2022
Asset category:		
Other	100%	100%
Total	100%	100%

The Bank uses a December 31 measurement date for the Plan. For measurement purposes, the healthcare trend rate of 5.5% was used in 2023 and 2022. They will remain at that level thereafter except where the Bank's contribution limit applies. The healthcare cost trend rate assumptions have a significant effect on the amounts reported, but their impact is lessened because the Bank limits its annual increase at twice the 1991 average premium rate. Increasing or decreasing the assumed healthcare cost trend rates by 1.0% in each year would not change the accumulated postretirement benefit obligation nor would the aggregate of the service and interest components of net periodic postretirement benefit cost change.

The weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	2023	2022
Discount rate	5.10%	5.40%
Rate of compensation increase	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost at December 31 are as follows:

	2023	2022
Discount rate	5.40%	3.00%
Expected return of plan assets	2.50%	1.00%
Rate of compensation increase	N/A	N/A

The expected return on retirement plan assets is developed using inflation expectations and risk factors to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

The plan assets are invested in a 501(c)(9) Voluntary Employees' Beneficiary Association trust which is subject to unrelated business income tax. The plan assets were funded by the Bank initially on December 31, 1991 and periodic contributions have been made since then. As of December 31, 2023 and 2022, there were only liquid investments.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. The Plan was designed to provide only for healthcare premiums and, consequently,

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

the measures of the postretirement benefit obligations and net periodic postretirement benefit cost do not reflect effects of the Act.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending December 31,	Pension Benefits
2024	$ 474
2025	$ 466
2026	$ 459
2027	$ 450
2028	$ 437
2029 through 2033	$ 1,929

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance-Sheet Risk: The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments represent commitments to originate fixed and variable rate loans and lines of credit and involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the Bank's consolidated balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments to originate loans and lines of credit as it does for on-balance sheet instruments.

The following financial instruments represent off-balance-sheet credit risk at December 31:

	2023	2022
Commitments to extend credit	$ 389,224	$ 447,195
Standby letters of credit	12,335	12,436
Total loan commitments	$ 401,559	$ 459,631

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include deposit accounts, accounts receivable, inventory, equipment and deeds of trust on residential real estate, land held for development and income-producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to commitments to extend

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

credit and standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2023 and 2022. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Contingencies: The Bank is involved in legal proceedings arising in the normal course of business. In the opinion of management, the outcomes of such proceedings will not have a material adverse effect on the Bank's financial position or results of operations.

Uninsured Deposits: The Bank maintains funds on deposit with the Federal Home Loan Bank (FHLB) and other federally insured financial institutions under correspondent banking agreements. Uninsured deposits with the FHLB and correspondent banks totaled $10,905 and $8,822 at December 31, 2023 and 2022, respectively.

Postretirement Benefits: The Bank has salary continuation agreements in place to provide nonqualified defined benefit retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased split-dollar single premium life insurance policies on each participant The agreements provide that each executive will receive annual benefits over their lifetime commencing with the month following their normal retirement date.

The Bank accrues for these future benefits from the effective date of the agreements until the executives' expected final payment dates in a systematic and rational manner. As of December 31, 2023, and 2022, the Bank had accrued $11,362 and $12,267, respectively, for benefits payable. This payable approximates the then present value of the benefits expected to be provided at retirement. The expense recognized under these agreements totaled $567 and $1,029 for the years ended December 31, 2023 and 2022, respectively. Amounts recognized in accumulated other comprehensive income as of December 31, 2023 and 2022, were not considered material.

The Bank has also established a deferred compensation plan for certain members of management for the purpose of providing the opportunity to defer compensation. At December 31, 2023 and 2022, the liability for accrued deferred compensation, including interest earned, totaled $4,123 and $4,052, respectively.

The Bank has also executed split-dollar life insurance agreements with certain employees in connection with the salary continuation agreements and deferred compensation plan whereby the Bank has effectively agreed to maintain a life insurance policy during the employees' postretirement period. The Bank had accrued a liability at December 31, 2023 and 2022 in the amount of $2,991 and $2,925, respectively, representing the actuarial present value of the costs to maintain life insurance during the employees' postretirement period.

The cash surrender value of life insurance purchased in connection with these agreements totaled $68,887 and $66,597 as of December 31, 2023 and 2022, respectively.

(In thousands, except per share amounts)

NOTE 15 – REGULATORY MATTERS

Regulatory Capital: Banks are subject to regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and prompt corrective action regulation 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. On January 1, 2015, the final rules of the Federal Reserve Board went into effect implementing in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision. Under the BASEL III rules, the minimum capital ratios are 4% for Tier 1 Leverage Capital Ratio, 4.5% for the Common Equity Tier 1 Capital Ratio, 6% for the Tier 1 Risk-Based Capital Ratio and 8% for the Total Risk-Based Capital Ratio. The net unrealized gain or loss on available for sale securities and defined benefit plans are not included in computing regulatory capital. Management believes as of December 31, 2023, the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications; well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt correction action. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The following table represents the Bank’s regulatory capital position as of December 31, 2023 and 2022 in relationship to the regulatory requirements to meet the definitions of adequately capitalized and well capitalized. There is an additional element of capital required referred to as the capital conservation buffer that is not included in this table. The capital conservation buffer adds another level of capital of 2.50% over the adequately capitalized ratios and is required to eliminate any regulatory restrictions from the Bank’s ability to issued dividends, complete stock buybacks or pay management discretionary bonuses.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Minimum Amount	Minimum Ratio	Minimum Amount	Minimum Ratio
December 31, 2023						
Total capital (to risk-weighted assets)	$ 393,588	18.84%	$ 167,095	8.0%	$ 208,869	10.0%
Tier 1 capital (to risk-weighted assets)	$ 367,267	17.58%	$ 125,321	6.0%	$ 167,095	8.0%
Common Tier 1 (CET I)	$ 367,267	17.58%	$ 93,991	4.5%	$ 135,765	6.5%
Tier 1 capital (to average assets)	$ 367,267	10.52%	$ 139,613	4.0%	$ 174,516	5.0%
December 31, 2022						
Total capital (to risk-weighted assets)	$ 380,252	19.54%	$ 155,707	8.0%	$ 194,633	10.0%
Tier 1 capital (to risk-weighted assets)	$ 355,686	18.27%	$ 116,780	6.0%	$ 155,707	8.0%
Common Tier 1 (CET I)	$ 355,686	18.27%	$ 87,585	4.5%	$ 126,512	6.5%
Tier 1 capital (to average assets)	$ 355,686	10.15%	$ 140,127	4.0%	$ 175,159	5.0%

Dividend Restrictions: The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. In addition, subject to prior regulatory approval, any state banking association may request an exception to this restriction.

(Continued)

(In thousands, except per share amounts)

NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS

A subset of our noninterest income relates to certain fee-based revenue within the scope of ASC 606 – *Revenue from Contracts with Customers*. The objective of the standard is to clarify the principles for recognizing revenue from contracts with customers across all industries and to develop a common revenue standard under GAAP. All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Bank's sources of Non-Interest Income for the twelve months ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	2023	2022
Non-interest Income		
Service charges and fees	$ 3,265	$ 3,279
Trust income	9,787	10,024
Merchant discount and interchange fees	5,311	5,200
Income from bank owned life insurance[a]	2,255	2,121
Other income[a]	3,042	3,744
Total non-interest income	$ 23,660	$ 24,368

[a]Not within the scope of ASC 606.

A description of the Bank's revenue streams accounted for under ASC 606 follows.

Service charges and fees: Retail Banking provides demand deposit, money market and savings account products for consumer and small business customers. Services include online and branch banking, overdraft, ATM use fees, wire transfer services, imaging services and cash alternative services such as cashier's checks. We recognize fee income at the time these services are performed for the customer.

Trust Services: Services provided to Trust customers are a series of distinct services that have the same pattern of transfer each month. Fees for trust accounts are billed and drafted from trust accounts on a predominately monthly basis. The Bank records these fees on the income statement on a monthly basis. Fees are assessed based on the total investable assets of the customer's trust account. A signed contract between the Bank and the customer is maintained for all customer trust accounts with payment terms identified. It is probable that the fees will be collectible as funds being managed are accessible by the asset manager. Past history of trust fee income recorded by the Bank indicates it is highly unlikely that a significant reversal could occur.

Merchant Discount and Interchange Fee: Retail Banking earns fee revenue for debit and credit card processing services. We provide these services to merchant businesses including point-of-sale payment acceptance capabilities and customized payment processing built around the merchant's specific requirements. We earn fee revenue as the merchant's customers make purchases.

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. Upon the transfer of control of the property to the buyer, the OREO asset is derecognized and the gain or loss on sale is recorded.

(Continued)

(In thousands, except per share amounts)

NOTE 17 – LEASES

The Bank leases certain branch premises under operating lease agreements. The leases expire on various dates through 2030 and have renewal options for up to five years. The Bank includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. The Bank has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Bank's balance sheet. At December 31, 2023, minimum commitments under these non-cancellable leases with initial or remaining terms of one year or more are as follows:

Year Ending December 31,	
2023	$ 1,821
2024	1,897
2025	1,585
2026	1,418
2027	1,083
Thereafter	1,413
Total undiscounted lease payments	9,217
Less: imputed interest	(1,556)
Net lease liabilities	$ 7,661

Leases are classified as operating at the lease commencement date. Lease expenses for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Rent expense under operating leases was $1,822 and $1,681 for the years ended December 31, 2023 and 2022, respectively.

As the Bank carries no debt and has not participated in the secondary markets to raise new debt, the Bank has elected to use US Treasury yields as a proxy for the incremental implicit rate of its leases. The Bank believes that US Treasury yields are not materially different from its ability to access the market through a fully secured borrowing rate.

Right-of-use assets and lease liabilities by lease type and the associated balance sheet classifications for the years ending December 31, 2023 and 2022 are as follows:

	Balance Sheet Classification	2023	2022
Right-of-use assets:			
Operating lease	Accrued interest receivable and other assets	$ 7,661	$ 8,210
Lease liabilities:			
Operating lease	Accrued interest payable and other liabilities	$ 7,661	$ 8,210