2023
Consolidated Financial Report

www.pcbb.com
investor_relations@pcbb.com
(888) 399-1930

A Letter from President Mike Dohren

This past year has been one full of change, but also tremendous growth. PCBB's accomplishments in 2023 stand as proof that change can have a profoundly positive effect on both our banking customers and the customers who count on them.

Not only did PCBB successfully onboard customers to our proprietary CECL FIT® platform, but we also expanded our faster payments capabilities with the FedNow® Service. We've also added several new partnerships to our menu of services so that we can provide even more value to our customers.

Along with our 23 new hires in 2023, we welcomed a new CEO, Curt Hecker, whose leadership supports and guides PCBB into the future. We also expanded our Board of Directors with a new addition, Kathy Moe Lonowski, who brings decades of experience from her position with the FDIC.

We ended 2023 with our best quarter of the year. We have much to be proud of from last year, including achieving 28% loan growth, navigating regional bank failures and the resulting liquidity crisis, and delivering a 26% improvement in profitability. In addition, we migrated from LIBOR to SOFR and added 60 new customers. With such promising results in 2023, we are optimistic about our continued success in 2024.

Mike Dohren, President
PCBB

p: (888) 399-1930 a: 1676 N. California Blvd., Suite 300
w: pcbb.com Walnut Creek, CA 94596

Pacific Coast Bankers' Bancshares

Consolidated Financial Report

December 31, 2023

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
Pacific Coast Bankers' Bancshares

Opinion on Internal Control Over Financial Reporting
We have audited Pacific Coast Bankers' Bancshares and its subsidiaries' (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the consolidated financial statements of the Company as of and for the years ended December 31, 2023 and 2022, and our report April 13, 2024 expressed an unmodified opinion.

Basis for Opinion
We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting" section of our audit report. We are required to be independent of the Company and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting
Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report of Internal Control over Financial Reporting.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting
Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting
An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Parent Company Only Financial Statements for Small Bank Holding Companies (Form FR Y-9SP) and the Federal Financial Institutions Examination Council (FFIEC) Instructions for Consolidated Reports of Condition and Income. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that the receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Restriction on Use
This report is intended solely for the information and use of the Board of Directors and management of the Company, and its regulators and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

San Francisco, California
April 13, 2024

RSM US LLP

Independent Auditor's Report

Board of Directors
Pacific Coast Bankers' Bancshares

Report on the Audit of the Financial Statements

Opinion
We have audited the consolidated financial statements of Pacific Coast Bankers' Bancshares and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 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 have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated April 13, 2024 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion
We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard
As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses on financial instruments in 2023 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Credit Losses)*.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

RSM US LLP

San Francisco, California
April 13, 2024

Consolidated Balance Sheets

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares
As of December 31

Assets	2023	2022
Cash and due from banks	$ 18,714	$ 17,520
Interest-bearing deposits in other financial institutions	243,722	519,819
Restricted cash	108,107	116,452
Cash, cash equivalents and restricted cash	**370,543**	**653,791**
Securities available for sale, at fair value	28,568	35,119
Securities held to maturity, at amortized cost	115,426	132,601
Federal Home Loan Bank stock, at cost	2,799	2,089
Federal Reserve Bank stock, at cost	1,457	1,438
Loans receivable, net	332,591	260,446
Equipment and leasehold improvements, net	2,479	3,033
Cash surrender value of life insurance policies	13,801	8,539
Fair value of derivative contracts	163,070	219,895
Interest receivable and other assets	16,842	17,886
Total assets	**$ 1,047,576**	**$ 1,334,837**
Liabilities and shareholders' equity		
Liabilities		
Deposits:		
Non-interest-bearing	$ 264,986	$ 348,066
Interest-bearing	129,487	186,617
Total deposits	**394,473**	**534,683**
Term loan	21,000	24,000
Trust preferred securities	19,589	19,589
Fair value of derivative contracts	499,971	649,952
Interest payable and other liabilities	13,439	12,723
Total liabilities	**948,472**	**1,240,947**
Commitments and contingencies *(Notes 10, 11, and 12)*		
Shareholders' equity		
Preferred stock ($100 par value); authorized 10,000,000 shares; Series D, 49,500 shares issued and outstanding at December 31, 2023 and 2022	4,950	4,950
Common stock (no par value); authorized 10,000,000 shares; 1,025,280 and 1,013,780 shares issued and outstanding at December 31, 2023 and 2022, respectively	20,591	19,834
Additional paid-in capital	760	965
Retained earnings	74,232	70,261
Accumulated other comprehensive loss	(1,429)	(2,120)
Total shareholders' equity	**99,104**	**93,890**
Total liabilities and shareholders' equity	**$ 1,047,576**	**$ 1,334,837**

See notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares
For the years ended December 31

	2023	2022
Interest and dividend income		
Interest and fees on loans	$ 21,167	$ 10,522
Interest on securities	9,909	4,611
Interest on federal funds sold	22,931	9,741
Other	44	23
Total interest and dividend income	**54,051**	**24,897**
Interest expense		
Interest on deposits	8,571	4,221
Interest on FHLB advances and other borrowings	25,412	9,656
Interest on trust preferred securities	1,113	903
Total interest expense	**35,096**	**14,780**
Net interest income	**18,955**	**10,117**
Provision for (release of) allowance for credit losses	366	(5,842)
Net interest income after provision for (release of) loan losses	**18,589**	**15,959**
Non-interest income		
Transaction, brokerage and service fees	21,214	20,159
Gain of fair value adjustment of derivative contracts	4,157	6,990
Account analysis fees	5,557	6,535
Other non-interest income	4,631	4,437
Total non-interest income	**35,559**	**38,121**
Non-interest expense		
Salaries and employee benefits	24,657	23,137
Service charges	10,609	9,521
Occupancy and equipment	2,314	2,919
Loss on disposal of assets	- -	1,501
Other non-interest expense	8,576	10,438
Total non-interest expense	**46,156**	**47,516**
Income before income taxes	**7,992**	**6,564**
Income taxes	**1,983**	**1,809**
Net income	**$ 6,009**	**$ 4,755**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares
For the years ended December 31

	2023	2022
Net income	$ 6,009	$ 4,755
Other comprehensive income, net of tax:		
Unrealized gain (loss) on investment securities	691	(2,859)
Comprehensive income	**$ 6,700**	**$ 1,896**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Gain/(Loss)	Total
Balance at December 31, 2021	1,004,532	49,500	$ 19,231	$ 4,950	$ 786	$ 67,252	$ 739	$ 92,958
Net income	- -	- -	- -	- -	- -	4,755	- -	4,755
Other comprehensive loss	- -	- -	- -	- -	- -	- -	(2,859)	(2,859)
Restricted stock units vested	9,248	- -	603	- -	(603)	(545)	- -	(545)
Stock-based compensation	- -	- -	- -	- -	782	- -	- -	782
Cash dividends on preferred series D	- -	- -	- -	- -	- -	(347)	- -	(347)
Cash dividends on common stock ($1.25 per share)	- -	- -	- -	- -	- -	(1,255)	- -	(1,255)
Implemenation of ASU 2016-02	- -	- -	- -	- -	- -	401	- -	401
Balance at December 31, 2022	1,013,780	49,500	$ 19,834	$ 4,950	$ 965	$ 70,261	$ (2,120)	$ 93,890
Net income	- -	- -	- -	- -	- -	6,009	- -	6,009
Other comprehensive income	- -	- -	- -	- -	- -	- -	691	691
Restricted stock units vested	11,500	- -	757	- -	(757)	(416)	- -	(416)
Stock-based compensation	- -	- -	- -	- -	552	- -	- -	552
Cash dividends on preferred series D	- -	- -	- -	- -	- -	(347)	- -	(347)
Cash dividends on common stock ($1.25 per share)	- -	- -	- -	- -	- -	(1,275)	- -	(1,275)
Balance at December 31, 2023	**1,025,280**	**49,500**	**$ 20,591**	**$ 4,950**	**$ 760**	**$ 74,232**	**$ (1,429)**	**$ 99,104**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares
For the years ended December 31

	2023	2022
Cash Flows from Operating Activities		
Net income	$ 6,009	$ 4,755
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,258	1,950
Amortization of premiums on securities, net	477	648
Deferred tax (benefit) provision	691	(2,859)
Provision for (release of) allowance for credit losses	366	(5,842)
Reserve for unfunded commitments	(2)	(14)
Change in fair value of derivatives	(93,155)	815,912
Deferred loan origination costs, net of amortization	(28)	260
Loss on disposal of fixed asset	- -	1,501
Payment of lease liabilities	(704)	(684)
Stock-based compensation expense	552	703
Changes in other assets and other liabilities	(2,795)	(10,561)
Net cash (used in) provided by operating activities	**(87,331)**	**805,769**
Cash Flows from Investing Activities		
Activity in securities:		
Maturities, prepayments and calls	24,222	23,647
Purchase of held to maturity securities	- -	(96,627)
Proceeds from sale of FRB stock and FHLB stock	- -	33
Purchases of FRB stock and FHLB stock	(729)	(27)
Loans funded, net	(72,483)	(63,617)
Purchase of equipment and leasehold improvements	(706)	(926)
Net cash used in investing activities	**(49,696)**	**(137,517)**
Cash Flows from Financing Activities		
Net decrease in deposits	(140,209)	(702,566)
Paydown from other borrowings	(3,000)	(3,000)
Cash dividends on common stock	(1,275)	(1,293)
Cash dividends on preferred stock	(347)	(347)
Net cash used in financing activities	**(144,831)**	**(707,206)**
Non-Cash Transactions		
Non-cash for restricted stock units vested	(416)	(545)
Fair value change in securities available for sale	(974)	4,027
Net decrease in cash, cash equivalent and restricted cash	**(283,248)**	**(35,472)**
Cash, Cash Equivalents and Restricted Cash		
Beginning of the year	653,791	689,263
End of the year	**$ 370,543**	**$ 653,791**

Consolidated Statements of Cash Flows (Cont.)

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares
Years Ended December 31, 2023 and 2022

	2023	2022
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 35,071	$ 14,647
Income taxes paid, net of refunds received	3,067	170
Cash outflows from operating leases	704	684
Supplemental Disclosure of Non-Cash Investing Activities		
Fair value adjustment of securities available for sale	$ 691	$ (2,859)

See notes to consolidated financial statements.

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Pacific Coast Bankers' Bancshares (the Company) consists of a bank holding company and one operating subsidiary: Pacific Coast Bankers' Bank (the Bank). The Company also owns the outstanding stock of PCBB Trust I and PCBB Trust II, which were organized for the purpose of issuing Company-obligated trust preferred securities. The Company is subject to regulations imposed by supervisory agencies and undergoes periodic examinations.

The Bank is a state-chartered bank and a Federal Reserve Bank (FRB) member. The Bank is defined by statute as a “bankers' bank,” under which it is organized to transact business with other financial institutions and is primarily owned by financial entities. The Bank provides a full range of correspondent services to financial institutions throughout the United States, including cash management, advisory, hedging, cash letter settlement, lending, foreign exchange, and other services.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the financial services industry. Preparation of consolidated financial statements in conformity with GAAP includes the use of certain estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the Company's results and its disclosure for the periods presented. Actual results could differ materially from those derived from estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale, and the valuation of derivative contracts. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these consolidated financial statements, other than the adoption of Accounting Standards Update (ASU) 2016-13 on January 1, 2023. See "Recent Accounting Pronouncements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany transactions and balances have been eliminated.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation, with no effect on previously reported shareholders' equity and net income.

Subsequent Events

On February 20, 2024, the Company declared a common dividend in the amount of $1.25 per share, which aggregated to $1.3 million. The dividend was paid on March 6, 2024.

Management has evaluated subsequent events through April 13, 2024, which is the date the consolidated financial statements were available to be issued. All material subsequent events that required recognition or disclosure are reflected in the consolidated financial statements for the year ended December 31, 2023.

Cash Equivalents and Cash Flows

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits in other financial institutions that have an initial maturity of less than 90 days when acquired by the Bank. Generally, federal funds are sold for one-day periods. Cash flows from loans, federal funds purchased and deposits are reported net. The Company maintains its cash in accounts maintained in depository institutions that may, at times, exceed federally insured limits. The Company has not experienced losses from these accounts.

Restricted Cash

Restricted cash represents cash balances held at financial institutions required to be pledged to secure derivative transactions.

Preferred Series D Stock

The Board of Directors designated up to 100,000 shares for issuance and the Company has issued

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Preferred Series D Stock (Cont.)

preferred D cumulative perpetual preferred stock, which pays dividends at a rate of 7.00 percent on a semi-annual basis on April 1 and October 1. The preferred D shares are redeemable by the Company at any time. Preferred D shares have no right to exchange or convert such shares into any other securities. In general, preferred D shares shall not have any voting rights, except as may be required by law or class voting rights on particular matters.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits consist of balances in financial institutions and deposits with the FRB, which are carried at cost.

Investment Securities

Securities available for sale consist of debt securities that the Company intends to hold for an indefinite period but not necessarily to maturity. Such securities may be sold to implement the Company's asset/liability management strategies and in response to changes in interest rates and other factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported in other comprehensive income. Realized gains and losses on securities available for sale, determined using the specific-identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income.

Allowance for Credit Losses – Available-for-Sale Securities: Effective January 1, 2023, upon the adoption of ASU 2016-13, debt securities available-for-sale are measured at fair value and are subject to impairment testing. A security is impaired if the fair value of the security is less than its amortized cost basis. When an available-for-sale security is considered impaired, the Bank must first assess 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.

Allowance for Credit Losses – Held-to-Maturity Securities: The allowance for credits losses for held-to-maturity debt securities is recorded at the time of purchase or when the Bank designates securities as held-to-maturity. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type. Debt securities that are either guaranteed or issued by the U.S. government or government agency, are highly rated by major rating agencies, and have a long history of no credit losses are examples of securities to which the Bank applies a zero-credit loss assumption. Any expected credit loss is provided through the allowance for credit losses and deducted from the amortized cost basis of the security.

Securities classified as held to maturity are carried at amortized cost. Classification due to the Company's intent to hold such securities to maturity and the Company's ability to do so.

Federal Home Loan Bank and Federal Reserve Bank Stocks

The Bank is required to hold non-marketable equity securities from the FRB and the Federal Home Loan Bank (FHLB) of San Francisco as a condition of membership. These securities do not have a readily determinable fair value as their ownership is restricted; there is no market for these securities.

The Company accounts for these securities in accordance with Accounting Standards Codification (ASC) 942-325-35, Financial Services – Depository and Lending: Investments – Other, under which stock is carried at cost and periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating FRB and FHLB stocks for impairment, management considers the ultimate recoverability of the par value based on the ability of the issuer to perform its obligations. FHLB and FRB stocks were not considered impaired during the years ended December 31, 2023 and 2022. Dividends are reported as interest income.

Loans Receivable and Allowance for Credit Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances and adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Loans Receivable and Allowance for Credit Losses (Cont.)

or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using the interest method.

The Current Expected Credit Losses ("CECL") standard became effective on January 1, 2023. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities and off-balance sheet credit exposure. The allowance for credit losses on loans is the combination of the allowance for loan losses and the reserve for unfunded commitments. The allowance for loan losses is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded commitments is included within Interest payable and other liabilities on the consolidated balance sheets. The amortized cost basis of loans does not include accrued interest receivable of $1.5 million as of December 31, 2023, which is included in Interest receivable and other assets on the consolidated balance sheets. The "Provision for credit losses" on the consolidated statements of income is a combination of the provision for loan losses and the provision for unfunded commitments. The Company's CECL model is based on information about past events, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. Historical credit loss experience provides the basis for estimation of expected credit loss, however, adjustments to historical loss information may be made for difference in portfolio-specific risk characteristics, environmental conditions or other relevant factors. The CECL methodology requires an entity to recognize an allowance for the expected credit losses over the lifetime of the loan or debt securities. This differs significantly from the "incurred loss" model which delayed recognition until it is probable that a loss has been incurred. Although the adoption of the CECL model affected how the Company determines the allowance for credit losses, the impact was immaterial and did not require an adjustment. Management actively monitors the Company's asset quality to provide appropriate provisions. If the Company is required to materially increase the level of allowance for credit losses for any reason, such an increase could adversely affect the Bank's financial condition and results of operations.

The Company holds held-to-maturity ("HTM") debt securities, all are 15-year mortgage-backed securities ("MBS") issued by either Fannie Mae or Freddie Mac and rated consistently as "Triple A" (AAA), the highest quality. In addition, Fannie Mae MBS are assigned a 20% risk-based weighting under Basel accounting rules, which determine capital reserve requirements for banking entities. A 20% risk weighting places Fannie Mae MBS in an asset category generally considered to be of very high credit quality. As such, all HTM securities held by the Company require no reserve calculation and accrued interest receivable on held-to-maturity securities totaled $293 thousand at December 31, 2023 and is excluded from the estimate of credit losses. For debt securities available-for-sale that do not meet the aforementioned criteria, the Bank must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize an allowance for credit losses by a charge to earnings for the credit related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) any non-credit-related components (if any) of the fair value decline. On January 1,2023, the date on which the Bank adopted ASU 2016-13, no allowance for credit losses was recorded for available-for-sale securities. The amortized cost of the Bank's available-for-sale securities excludes accrued interest, which is included in Securities available for sale, at fair value on the balance sheet. Accrued interest receivable on available-for-sale securities totaled $80 thousand at December 31, 2023 and is excluded from the estimate of credit losses.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations. As a matter of policy, the Bank estimates a liability for possible losses associated with unfunded loan commitments. This estimate applies a percentage factor of the total unfunded loan commitments.

Interest income on loans is accrued over the term of the loans based on the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, as well as when required by regulatory provisions. Past-due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on non-accrual loans are applied as a reduction to principal.

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Loans Receivable and Allowance for Credit Losses (Cont.)

Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at their cost less accumulated depreciation. Equipment is depreciated over the economic life of the asset using the straight-line method. Leasehold improvements are depreciated over the lesser of the lease term and the economic life. Gains or losses on dispositions are reflected in non-interest income on the accompanying statements of income.

Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If management determines impairment exists, the carrying amount is adjusted and impairment loss is recognized.

Asset Classification	Estimated Useful Life
Internal software development	3 - 5 years
Hardware	3 - 5 years
Furniture and fixtures	7 years
Leasehold improvements	5 - 7 years

Cash Surrender Value of Life Insurance Policies

Life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of income and are not subject to income taxes.

Account Analysis Fees

The Bank analyzes certain demand deposit accounts (Analyzed Accounts) for those customers who choose to maintain account balances to offset some or all of their account service charges. Account service charges include account activity fees charged by the Bank, as well as third-party service charges, including FRB charges passed on to customers. The Bank reduces account service charges by an earnings credit, based upon the average balances maintained each month in the Analyzed Accounts.

Advisory Fees

The Company provides risk and performance advisory services under contractual arrangements with customers. Revenue on contracts with customers is determined by performing the following analysis: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when a performance obligation is satisfied. The Company’s contracts with customers are generally long term in nature, typically with a three to five-year expiration and contain an auto renewal element. Performance obligations for the Company’s customer contracts are primarily satisfied over the life of the contract with a necessary set-up element beginning at contract inception. Performance obligations satisfied over time are recognized ratably over the contract term. Customer set-up is recognized using the output method, directly measuring the value of the service transferred to the customer. The Company typically receives payment from customers on a quarterly or annual basis. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time as the performance obligations have been satisfied. In cases where the Company has not received payment despite satisfaction of the Company’s performance obligations, the Company accrues an estimate of the amount due in the period the Company’s performance obligations have been satisfied.

Transaction, Brokerage and Service Fees

Transaction and service fee income includes brokerage fees for loans, domestic and international wires, as well as other transaction and services fees. Income is recognized on the trade-date basis for brokerage fees and at the time service is provided for other services fees.

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. The latter is deemed to occur when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange the assets it received and provides more than a modest benefit to the transferor; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loan receivables), the transfer must meet the definition of participating interest in order to account for the transfer as a sale, for which the following conditions must be met:

- Pro rata ownership in the entire financial asset.
- From the date of the transfer, all cash flows received from the entire financial assets are divided proportionately among the participating interest holders in an amount equal to their shares of ownership.
- The rights of each participating interest holder have the same priority and no participating interest holder’s interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to the pledge or exchange.

Income Taxes

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The respective tax benefits recognized in the consolidated financial statements are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods. When applicable, the Company will recognize interest and penalties related to unrecognized tax benefits within the income tax expense line on the accompanying consolidated statements of income. Accrued interest and penalties will be included within the related tax liability line on the consolidated balance sheets, when applicable. During the years ended December 31, 2023 and 2022, no significant interest or penalties were accrued.

Derivatives and Hedging Activities

Credit Risk

The Bank is subject to risk of non-performance by counterparties in derivative agreements. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Bank’s risk management policies and credit guidelines. Based on the master netting arrangements, credit analyses and collateral requirements in place, management does not anticipate credit losses on its agreements, for which no allowance for credit losses is deemed necessary. To mitigate this risk, certain derivatives are cleared through a central clearing exchange. The central counterparty is the London Clearing House (“LCH”). Derivatives cleared through LCH are treated as settled-to-market which means the value of the contracts are settled each day which results in a fair value

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Derivatives and Hedging Activities (Cont.)

Credit Risk (Cont.)

of $0.

Intermediation

As a service to its customers, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary in offsetting derivatives transactions with customer banks and other counterparties. This intermediation allows customers indirect access to the derivatives market. The offsetting derivatives used in intermediary activities do not receive hedge accounting treatment in accordance with derivative topic of the Financial Accounting Standards Board (FASB) ASC and are separately marked to fair value through earnings.

See Note 16 for more information on derivatives provided as a service to customers.

Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. The framework comprises a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; data other than observable quoted prices or derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Data unobservable and significant to the fair value measurement, including financial instruments whose value is determined using discounted cash flows, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Provided fair value disclosures and balances, which pertain to the Company's consolidated financial statements do not represent the aggregate net fair value of the Company. Further, fair value estimates are based on various assumptions, methodologies and subjective considerations which vary widely among different financial institutions and which are subject to change.

The Company's fair value assessments are constructed based on the following methods and assumptions:

Securities Available for Sale

The fair value of securities is based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices for comparable instruments.

Off-Balance-Sheet Instruments

The fair value of commitments and guarantees to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms and the customers' creditworthiness. Since the majority of the Company's off-balance-sheet instruments consist of non-fee producing, variable-rate commitments, the Company has determined that they do not have a distinguishable fair value.

Derivative Contracts

The carrying amount of interest rate caps, interest rate floors, interest rate swaps, and prepayment agreements approximates fair value and is estimated using a discounted cash flow method based on current incremental rates for similar types of arrangements.

Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

Recent Accounting Pronouncements

ASU No. 2016-13*, "Financial Instruments – Credit Losses (Topic 326)."* This ASU significantly changes how entities measure credit losses for most financial assets and other certain instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that historical guidance delayed recognition of credit losses. The standard replaced the "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, applies to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will continue to measure credit losses in a manner similar to previous methods, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities are recognizing improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they have done historically. The ASU also simplified the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for credit losses. In addition, entities are required to disclose the amortized cost balance for each class of financial asset by credit quality indicator. ASU No. 2016-13 became effective for annual reporting periods beginning after December 15, 2022; early adoption was permitted for annual reporting periods beginning after December 15, 2018. Upon adoption, entities applied the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company adopted the standard as of January 1, 2023, the effective date. The adoption of ASU 2016-13 did not significantly impact the Company's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): *Improvements to Income Tax Disclosures*, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This ASU is effective for the Company beginning on January 1, 2026. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

Commitments and Contingencies

In accordance with applicable accounting guidance, the Company establishes reserves for legal expenses and disputes resolution when those matters represent contingencies that are both probable and the amount is estimable, including claims and legal actions arising in the ordinary course of business. These reserves are recorded as liabilities.

Note 2 - Agency Program

The Bank acts as an agent for selling overnight federal funds on behalf of respondent financial institutions. Participating institutions place trades daily and, simultaneously, the Bank makes the sales to preapproved purchasing banks. The Bank also maintains balances in excess balance accounts at the FRB on behalf of respondent banks. Only the Bank’s balance is recognized on the Bank’s Balance Sheet. At December 31, 2023 and 2022, outstanding respondent federal funds sold and excess balance accounts totaled $1.6 billion and $2.0 billion, respectively. As a result of this service, the Bank recorded as-agent fee income of $1.1 million and $1.2 million for the years ended December 31, 2023 and 2022, respectively. The Bank is a preapproved purchasing bank in the overnight federal funds program and had no federal funds purchased at December 31, 2023 and 2022.

Note 3 - Cash and Cash Equivalents

Cash and due from banks includes balances with the FRB and other correspondent banks.

The Bank also provides federal funds facilities to respondent banks. These uncommitted facilities are approved for up to one year and permitted usage is subject to terms and conditions as stipulated by the Bank. At December 31, 2023 and 2022, the Bank had provided federal funds facilities to 37 respondent banks for $188 million and 34 respondent banks for $170 million, respectively. There are no outstanding agreements at December 31, 2023 and 2022.

Note 4 - Investment Securities

The amortized cost and estimated fair value of securities available for sale as of December 31 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2023				
Agency mortgage-backed securities	$ 30,580	$ 4	$ (2,016)	$ 28,568
December 31, 2022				
Agency mortgage-backed securities	$ 38,105	$ 5	$ (2,991)	$ 35,119

The amortized cost and estimated fair value of securities held to maturity as of December 31 consist of the following (in thousands):

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
December 31, 2023				
Agency mortgage-backed securities	$ 115,426	$ --	$ (7,833)	$ 107,593
December 31, 2022				
Agency mortgage-backed securities	$ 132,601	$ --	$ (9,475)	$ 123,126

Note 4 - Investment Securities (Cont.)

The following shows the unrealized gross losses and fair value of securities in the securities available for sale portfolio at December 31 by length of time that individual securities in each category have been in a continuous loss position (in thousands):

	Less than 12 months		12 months or more		Total Unrealized	
	Unrealized Gross Loss	Unrealized Fair Value	Unrealized Gross Loss	Unrealized Fair Value	Gross Loss	Fair Value
December 31, 2023						
Agency mortgage-backed securities	$ (0)	$ 16	$ (2,016)	$ 28,204	$ (2,016)	$ 28,220
December 31, 2022						
Agency mortgage-backed securities	$ (2,990)	$ 34,726	$ (1)	$ 46	$ (2,991)	$ 34,772

There were 45 securities that had been in an unrealized loss position for 12 months or more at December 31, 2023 and 1 security at December 31, 2022.

The following shows the unrecognized gross losses and fair value of securities in the securities held to maturity portfolio at December 31 by length of time that individual securities in each category have been in a continuous loss position (in thousands):

	Less than 12 months		12 months or more		Total Unrecognized	
	Unrecognized Gross Loss	Unrecognized Fair Value	Unrecognized Gross Loss	Unrecognized Fair Value	Gross Loss	Fair Value
December 31, 2023						
Agency mortgage-backed securities	$ - -	$ - -	$ (7,833)	$ 107,593	$ (7,833)	$ 107,593
December 31, 2022						
Agency mortgage-backed securities	$ (3,320)	$ 87,458	$ (6,155)	$ 35,668	$ (9,475)	$ 123,126

There were 9 securities that had been in an unrecognized loss position for 12 months or more at December 31, 2023 and 3 securities at December 31, 2022.

There were no gross realized gains or losses on securities for the years ended December 31, 2023 and 2022. Based on management's evaluation and intent, the unrealized losses related to the investment securities in the above tables are considered temporary.

Note 4 - Investment Securities (Cont.)

The amortized cost and estimated fair value of available for sale debt securities and held to maturity securities, by contractual maturity, at December 31, 2023, are shown below (in thousands). Actual and contractual maturities may differ due to issuers' right to call or prepay obligations with or without call or prepayment penalties.

	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$ 126	$ 123	$ - -	$ - -
Due from 1 to 5 years	1,307	1,266	- -	- -
Due from 5 to 10 years	20,593	19,193	- -	- -
Due after 10 years	8,554	7,986	115,426	107,593
Total	**$ 30,580**	**$ 28,568**	**$ 115,426**	**$ 107,593**

Securities with a fair value of $33.7 million and $21.4 million were pledged to secure borrowing arrangements as of December 31, 2023 and 2022, respectively.

There were no securities pledged to derivative counterparties as of December 31, 2023 and securities with a fair value of $15 thousand were pledged to derivative counterparties as of December 31, 2022.

Note 5 - Loans and Allowance for Credit Losses

Loans at December 31 consist of the following (in thousands):

	2023	2022
Commercial construction	$ 1,359	$ 866
Commercial real estate	154,212	115,028
Multifamily real estate	39,426	23,784
1 to 4 family real estate	403	1,001
Commercial and industrial	141,205	123,443
Loans before deferrals and allowance	**336,605**	**264,122**
Net deferred loan origination fees	(360)	(388)
Allowance for loan losses	(3,654)	(3,288)
Loans, net	**$ 332,591**	**$ 260,446**

The Bank facilitates the participation of loans on behalf of its respondent banks, generally retaining a portion in its portfolio.

As of December 31, 2023, and 2022, loans totaling $249 million and $192 million, respectively, were pledged to the FRB to secure a borrowing facility. There was no amount drawn on this facility as of December 31, 2023 and 2022. As of December 31, 2023, and 2022, loans totaling $80 million and $46 million, respectively, were pledged to the FHLB to secure a borrowing facility. There was no amount drawn on this facility as of December 31, 2023 and 2022.

Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis. A reporting system supplements the internal review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company also engages a third party to perform a credit review of the loan portfolio regularly.

Note 5 - Loans and Allowance for Credit Losses (Cont.)

Risk Management (Cont.)

As of December 31, 2023, approximately 58 percent of the Company's loans are for real estate and construction for both residential and commercial properties, of which construction represents approximately 0.4 percent of the total loan portfolio. As of December 31, 2023, approximately 42 percent of the Bank's loans are for general commercial uses, including professional, retail and small business. Generally, real estate loans are collateralized by real estate property, while commercial loans are collateralized by business assets.

Commercial real estate and multifamily real estate loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company has geographic concentrations in commercial real estate and multifamily loans. At December 31, 2023, 57 percent of loans were located in California and the remaining 43 percent of loans are distributed among 16 other states.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value. Moreover, commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. At December 31, 2023, the Company owned $119 million of syndicated loans. As these are purchased portions of large syndicated loans, the Company has limited influence on their management. A secondary market exists for these credits, which improves the liquidity of these loans, which also introduces market risk. Loans for construction, 1 to 4 family residential properties and other loans do not make up a significant number of loans or outstanding balances to be considered material.

Loans for 1 to 4 family residential underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Loans to 1 to 4 family residential borrowers are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Agriculture loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Agriculture loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Note 5 - Loans and Allowance for Credit Losses (Cont.)

Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the due date. An age analysis of past due loans (including both accruing and non-accruing loans), segregated by class of loans, as of December 31, 2023 and 2022 was as follows (in thousands):

Age Analysis of Past Due Loans as of December 31, 2023

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real Estate:						
Commercial construction	$ - -	$ - -	$ - -	$ 1,359	$ 1,359	$ - -
Commercial real estate	- -	- -	- -	154,212	$ 154,212	- -
Multifamily real estate	- -	- -	- -	39,426	$ 39,426	- -
1 to 4 Family real estate	- -	- -	- -	403	$ 403	- -
Commercial and industrial	- -	- -	- -	141,205	$ 141,205	- -
	$ - -	**$ - -**	**$ - -**	**$ 336,605**	**$ 336,605**	**$ - -**

Age Analysis of Past Due Loans as of December 31, 2022

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real Estate:						
Commercial construction	$ - -	$ - -	$ - -	$ 866	$ 866	$ - -
Commercial real estate	- -	- -	- -	115,028	115,028	- -
Multifamily real estate	- -	- -	- -	23,784	23,784	- -
1 to 4 Family real estate	- -	- -	- -	1,001	1,001	- -
Commercial and industrial	- -	- -	- -	123,443	123,443	- -
	$ - -	**$ - -**	**$ - -**	**$ 264,122**	**$ 264,122**	**$ - -**

Note 5 - Loans and Allowance for Credit Losses (Cont.)

Allowance for Credit Losses

The Company's measurement of the allowance for credit losses ("ACL") utilizes the average charge-off methodology to assess the Company's reserves of credit losses over the estimated life of each loan within the Bank's loan portfolio. The Company applies historical loss rates based on bank peer group (defined by asset size) for each of our selected loan categories in accordance with the location of the borrower or collateral as applicable. The look-back period goes back to March 2000, thereby including multiple economic cycles, and is the foundation for a baseline loss rate for each loan portfolio segment. The aforementioned baseline loss rate is further adjusted for a loan's risk rating as assigned by the Company.

To reflect current conditions, the Company has identified the following areas of consideration, which may result in either a positive of negative net impact to the baseline loss rate for each loan: Ability of Staff, Collateral, Concentration, Economic Conditions, Loan Review, Nature/Volume, Policy, and the Company's role as a participant lender (where applicable). To reflect forecasted conditions, the Company has selected a 4-quarter forecast period (applying GDP and Unemployment rate) that then reverts to the historic mean.

The Company estimates the remaining life of each loan category based on our own historical rate of loan repayment for that loan category, with a look-back period of 2007 (with the exclusion of select years where the Company pro-actively reduced the loan portfolio).

The allowance for loan losses is comprised of an individually evaluated component for loans that no longer share similar characteristics with other loans and a pooled component for loans that share similar risk characteristics. The criteria for individual evaluation include non-accrual status which means payment delinquency of 90 days or more. We measure the current expected credit loss of an individually evaluated loan based on the fair value of the underlying collateral if the loan is collateral-dependent or the present value of cash flows if the loan is not collateral-dependent. A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. To the extent a loan balance exceeds the estimated collectable value, a reserve or charge-off is recorded depending upon either the certainty of the estimate of loss or the fair value of the loan's collateral if the loan is collateral-dependent.

The Company also applies ACL to assess reserve requirements for our unfunded commitments. The Company estimates expected future funding of unfunded commitments over the estimated life of the loan in accordance with both historical usage and known expected usage (when applicable).

The CECL methodology requires an entity to recognize an allowance for the expected credit losses over the lifetime of the loan. Although the adoption of the CECL model affected how the Company determines the allowance for credit losses, the impact was immaterial and did not require an adjustment.

The following tables detail activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2023 and 2022 (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Note 5 - Loans and Allowance for Credit Losses (Cont.)

Allowance for Credit Losses (Cont.)

Allowance for Credit Losses
For the Year Ended December 31, 2023

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Other Loans	Total
December 31, 2022							
Beginning balance	$ 27	$ 1,580	$ 211	$ 9	$ 1,461	$ - -	$ 3,288
Adjustment for CECL	- -	- -	- -	- -	- -	- -	- -
Charge-offs	- -	- -	- -	- -	- -	- -	- -
Recoveries	- -	- -	- -	- -	- -	- -	- -
Provisions (releases)	4	(468)	74	(4)	760	- -	366
Ending balance	**$ 31**	**$ 1,112**	**$ 285**	**$ 5**	**$ 2,221**	**$ - -**	**$ 3,654**
Collectively evaluated for impairment	$ 31	$ 1,112	$ 285	$ 5	$ 2,221	$ - -	$ 3,654

Allowance for Loan Losses
For the Year Ended December 31, 2022

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Other Loans	Total
December 31, 2021							
Beginning balance	$ 252	$ 1,361	$ 475	$ 15	$ 1,286	$ - -	$ 3,389
Charge-offs	- -	- -	- -	- -	- -	- -	- -
Recoveries	- -	- -	- -	- -	- -	5,741	5,741
Provisions (releases)	(225)	219	(264)	(6)	175	(5,741)	(5,842)
Ending balance	**$ 27**	**$ 1,580**	**$ 211**	**$ 9**	**$ 1,461**	**$ - -**	**$ 3,288**
Collectively evaluated for impairment	$ 27	$ 1,580	$ 211	$ 9	$ 1,461	$ - -	$ 3,288

Note 5 - Loans and Allowance for Credit Losses (Cont.)

Allowance for Credit Losses (Cont.)

There are no individually evaluated loan as of December 31, 2023 and 2022.

There were no commitments to lend additional funds to borrowers whose loans had been modified for the years ended December 31, 2023 and 2022.

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators, including trends related to (i) risk grade by loan type, (ii) level, (iii) delinquency status, (iv) net charge-offs, (v) non-performing status, and (vi) general economic conditions.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 10. A description of the general characteristics of the risk grades is as follows:

Grades 1 to 5 - These grades reflect various levels of acceptable credit risk where grade 1 represents the highest credit quality and lowest risk of default and grade 5 represents moderate credit risk based upon mitigating factors.

Grade 6 - This grade represents existing loans with a higher than average credit risk but are currently within the Company's credit risk tolerance for a passing loan. A loan will be downgraded to a grade 6 if it warrants greater than routine attention by bank personnel due to conditions affecting the borrower, the borrower's industry, or the economic environment. This risk grade is utilized on a temporary basis for a pass grade.

Grade 7 - This grade reflects loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date.

Grade 8 - This grade reflects loans that are insufficiently protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if applicable. Under this risk grade, a loan has defined weaknesses that make payment default or principal exposure likely, but not yet certain. Generally, the Company ceases the accrual of interest on these loans, although circumstances may exist where the continuation of the interest accrual is supported.

Grade 9 - This grade includes loans with a high probability of loss, but because of certain important and reasonably specific pending factors, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Grade 10 - This grade includes loans classified as loss which are considered uncollectible and of low value for which the continuation as a bankable asset is not warranted. While this classification results in the prompt charge-off of the loan, it is not intended to imply that the loan or some portion of it will never be collected, nor does it in any way imply that there has been a forgiveness of debt.

Note 5 - Loans and Allowance for Credit Losses (Cont.)

There were no non-accruals loans as of December 31, 2023 and 2022. The following is a summary of the credit risk profile by internally assigned grades as of December 31, 2023 and 2022 (in thousands):

Credit Quality Indicators
As of December 31, 2023

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Total
Grade							
Grades 1 - 6	$ 1,359	$ 153,219	$ 39,426	$ 403	$ - -	$ 141,205	$ 335,612
Grade 7	- -	- -	- -	- -	- -	- -	- -
Grade 8	- -	993	- -	- -	- -	- -	993
Grade 9	- -	- -	- -	- -	- -	- -	- -
Grade 10	- -	- -	- -	- -	- -	- -	- -
	$ 1,359	**$ 154,212**	**$ 39,426**	**$ 403**	**$ - -**	**$ 141,205**	**$ 336,605**
Nonaccrual	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -

Credit Quality Indicators
As of December 31, 2022

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Total
Grade							
Grades 1 - 6	$ 866	$ 115,028	$ 23,784	$ 1,001	$ - -	$ 123,443	$ 264,122
Grade 7	- -	- -	- -	- -	- -	- -	- -
Grade 8	- -	- -	- -	- -	- -	- -	- -
Grade 9	- -	- -	- -	- -	- -	- -	- -
Grade 10	- -	- -	- -	- -	- -	- -	- -
	$ 866	**$ 115,028**	**$ 23,784**	**$ 1,001**	**$ - -**	**$ 123,443**	**$ 264,122**
Nonaccrual	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -

Grade 1 through 6 are considered passing loan grades. A risk grade may be changed at any time, based upon the assessment of the current financial information available from the borrower. Loans with passing risk grades 1 through 5 are reviewed at least annually for any risk grade changes. Loans with risk grades of 6 through 9 are reviewed at least quarterly in order to monitor the trends in the financial strength of the borrowers, reassess the credit risk and determine a more current estimate of losses. Once it is determined that a loan is a loss it receives a grade 10 and is charged off at that time.

Loans are placed on non-accrual status when the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower’s debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company’s collateral position. Regulatory provisions would

Note 5 - Loans and Allowance for Credit Losses (Cont.)

typically require the placement of a loan on non-accrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well-secured and in the process of collection, or (ii) full payment of principal and interest is not expected. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on non-accrual loans are applied to principal. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Note 6 - Equipment and Leasehold Improvements

Equipment and leasehold improvements stated at cost, less accumulated depreciation and amortization, at December 31 are as follows (in thousands):

	2023	2022
Equipment and furniture	$ 1,309	$ 1,278
Internally developed software	5,016	4,676
Developed software and hardware in process	- -	198
Cost	**6,325**	**6,152**
Less accumulated depreciation and amortization	(3,846)	(3,119)
Net book value	**$ 2,479**	**$ 3,033**

Note 7 - Interest-Bearing Deposits

At December 31, 2023, interest-bearing deposits included money market deposits totaling $126.9 million, and time certificates totaling $2.6 million maturing in 2024. At December 31, 2022, interest-bearing deposits included money market deposits totaling $183.5 million, and time certificates totaling $3.1 million maturing in 2023.

At December 31, 2023 and 2022, the Bank had time deposits of $250 thousand or greater totaling $1.8 million and $2.3 million, respectively, and had no brokered deposits.

Note 8 - Other Borrowings

Borrowings from the FHLB of San Francisco may include overnight advances as well as loans with terms of up to 30 years. As of December 31, 2023, the Bank had a credit facility with the FHLB of San Francisco for up to approximately $74.6 million, which is secured by pledged securities with a fair value of $33.9 million and pledged loans with a fair value of $60.9 million. There was no amount outstanding under this facility as of December 31, 2023 and 2022.

The Bank has a borrowing facility in the amount of $190.3 million with the FRB, secured by $248.7 million of the Bank's loans. There were no amounts outstanding on this facility as of December 31, 2023 and 2022.

The Company has a line of credit in the amount of $30 million secured by the stock of subsidiary. The total outstanding under this facility was $21 million and $24 million as of December 31, 2023 and 2022, respectively.

Note 9 - Trust Preferred Securities

On November 13, 2003, the Company’s wholly owned special-purpose trust subsidiary, PCBB Trust I, issued $7.2 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month SOFR plus 2.85 percent (8.49 percent at December 31, 2023). Interest is payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company’s Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature November 8, 2033, and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

On September 28, 2006, the Company’s wholly owned special-purpose trust subsidiary, PCBB Trust II, issued $12.4 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month SOFR plus 1.70 percent (7.35 percent at December 31, 2023), payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company’s Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature December 15, 2036, and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

Of the $19.6 million received by the Company from the trust upon issuance of the Junior Subordinated Debentures, contributions of $15.0 million were distributed to the Bank to increase its capital. The balance was retained by the Company for general corporate purposes. Issuance costs of $140 thousand related to the Trust Preferred Securities have been deferred and are being amortized over the life of the securities. Interest expense on the Trust Preferred Securities totaled $1.1 million and $903 thousand for the years ended December 31, 2023 and 2022, respectively, including the impact of designated interest rate hedges in connection with these securities. Amortization expense was minimal for both periods.

Note 10 - Salary Continuation Agreements

The Bank has established salary continuation agreements for certain executive officers that provide benefits substantially equivalent to those available under single premium life insurance policies purchased by the Bank on the lives of its executives. The estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the executives’ expected retirement dates. During the year ended December 31, 2023, the expense of these agreements was $193 thousand and the accrued liability was $3.7 million. During the year ended December 31, 2022, the expense of these agreements was $184 thousand and the accrued liability was $3.4 million. The accrued liability is included in interest payable and other liabilities on the consolidated balance sheets.

The Company has purchased single premium life insurance policies to be used to satisfy the salary continuation liabilities. The cash surrender value of the single premium life insurance policies totaled $13.8 million and $8.5 million as of December 31, 2023 and 2022, respectively. Payments made on agreements to former executives totaled $38 thousand and $54 thousand for the years ended December 31, 2023 and 2022, respectively.

Note 11 - Commitments and Contingencies

Operating Leases

The Company leases space and equipment. Most leases require the Company to pay real estate taxes, maintenance insurance, and other similar costs in addition to base rent. In 2022, The Company adopted the new accounting standards that require lessees to recognize operating leases on the Consolidated Balance Sheet as right-of-use (ROU) assets and lease liabilities based on the present value of lease payments over the lease term for leases with terms greater than 12 months. The recognition of existing leases required an adjustment to retained earnings. The ROU asset and lease liability are records in 2022 in the consolidated balance sheets. ROU 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. As most of our leases do not provide an implicit rate, the Company uses its incremental borrowing rate at lease inception for collateralized borrowing over a similar term. FHLB's Fixed Rate Credit (FRC) Advance Rates were used. Provisions for rental rate increases are factored into our determination of lease payments when appropriate. Many of the leases provide the Company with the option to extend the lease term following expiration of the initial term. The ROU asset and lease liability terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications, are as follows:

	2023	2022
Right-of-use assets:		
Operating leases	$ 1,555	$ 2,284
Finance leases	- -	- -
Total right-of-use assets	**1,555**	**2,284**
Lease liabilities:		
Operating leases	$ 1,577	$ 2,293
Finance leases	- -	- -
Total lease liabilities	**1,577**	**2,293**

The Company leases its facilities under non-cancellable operating leases expiring in 2027. Minimum rental commitments under these leases for future years ending December 31 are as follows (in thousands):

2024	$ 786
2025	786
2026	57
2027	9
Total minimum lease obligations	**$ 1,638**

Rent expense totaled $798 thousand and $736 thousand in 2023 and 2022, respectively.

Employment Agreements

The Company and the Bank have employment and change in control agreements with executives, which provide for incentive compensation and severance provisions that include compensation and noncompetition agreements. The agreements provide that employment is at-will and, therefore, may be terminated by either party.

Note 11 - Commitments and Contingencies (Cont.)

Management Incentive Compensation Plan

The Company offers a management incentive plan to reward executive management for productivity, performance, and implementing the business plan of the Company. Members of executive management are eligible to participate in the plan. The plan provides executive management with both current cash incentives as well as restricted stock units that vest over three years. For the years ended December 31, 2023 and 2022, the combined expense for both cash incentive as well as restricted stock units recognized by the Company was $1.0 million and $1.4 million, respectively. The amounts paid to executive management under the plan during the years 2023 and 2022 were $414 thousand and $583 thousand, respectively. The accrued liability associated with this plan was $558 thousand and $580 thousand for the years ended December 31, 2023 and 2022, respectively. The incentive compensation is also subject to a “clawback” provision. The plan liability is included in interest payable and other liabilities on the consolidated balance sheets.

The Company has entered into change in control agreements with certain key executives which provide for severance benefits and accelerated vesting of restricted stock units in the event of a change in control.

Note 12 - Risks and Uncertainties

The Company’s direct exposure to credit risk is concentrated in any cash deposits in excess of applicable insurance limits. The Company reduces its exposure to this risk by maintaining cash deposits with only high-quality financial institutions.

Additionally, in the normal course of business, the Company enters into financial transactions involving the execution and settlement of transactions for the benefit of its clients. These activities may expose the Company to indirect credit risk, representing interest foregone, in the event a client or a third party is unable to fulfill its contractual obligation.

Because of the nature of its activities, the Company is subject to pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Note 13 - Stock Compensation Plan

In May 2019, the Company adopted the 2019 Omnibus Plan (the Plan). Under the Plan, stock option awards, stock appreciation rights, restricted stock awards, and restricted stock units may be granted to certain key employees and directors. The Plan authorizes the grant of equity awards as long as the number of shares of common stock granted under the Plan does not exceed 150,000 shares. Restricted stock units of 48,699 have been granted under the Plan and 101,301 are available to grant at December 31, 2023. The Plan became effective May 21, 2019 and terminates February 18, 2029.

The restricted stock units vest over a period of three years and expense is recognized using the straight-line method for each vesting arrangement in the accompanying consolidated financial statements. Fair market value of each award is determined at grant date. There were 13,966 non-vested restricted stock units as of December 31, 2023. Compensation expense of $593 thousand was recognized in 2023. Remaining expense to be recognized totals $549 thousand for restricted stock unit grants that have been awarded.

Note 13 - Stock Compensation Plan (Cont.)

Restrictied stock units granted under the plan	Units	Weighted Average Grant Date Fair Value
Outstanding at Jan 1, 2022	33,648	$ 64.12
Granted	8,503	72.00
Forfeited	(2,388)	60.00
Outstanding at Dec 31, 2022	**39,763**	**$ 66.05**
Outstanding at Jan 1, 2023	39,763	$ 66.05
Granted	8,936	$ 60.00
Outstanding at Dec 31, 2023	**48,699**	**$ 64.94**

Note 14 - Other Non-Interest Expense

Other non-interest expense at December 31 comprises the following (in thousands):

	2023	2022
Professional service fees	$ 3,747	$ 5,698
Data processing and software maintenance	1,611	1,512
Advertising and business development	1,065	1,274
Director fees and expenses	679	721
Meals, travel and entertainment	531	352
Other	943	881
Total	**$ 8,576**	**$ 10,438**

Note 15 - Income Taxes

The provision for income taxes for the years ended December 31 consists of the following (in thousands):

	2023	2022
Current:		
Federal	$ 1,809	$ 2,309
State	984	999
Total current provision	**2,793**	**3,308**
Deferred:		
Federal	(520)	(1,052)
State	(290)	(447)
Total deferred (benefit)	**(810)**	**(1,499)**
Total income tax provision	**$ 1,983**	**$ 1,809**

Note 15 - Income Taxes (Cont.)

The reconciliation between the statutory federal income tax rate of 21 percent and the Company's effective tax rate for the years ended December 31 (in thousands):

	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal income tax at statutory rates	$ 1,678	21.0%	$ 1,378	21.0%
State income tax	549	6.9%	436	6.6%
Income from bank owned life insurance	(55)	-0.7%	-	0.0%
Restricted stock	(50)	-0.6%	-	0.0%
Other	(139)	-1.7%	(5)	-0.1%
Total income tax expense	**$ 1,983**	**24.8%**	**$ 1,809**	**27.6%**

Components of the Company's net deferred tax assets at December 31 are as follows (in thousands):

	2023	2022
Deferred Tax Assets		
Allowance for loan losses	$ 1,014	$ 911
Salary continuation plans	1,018	941
Unrealized loss on securities available for sale	530	764
Research and development costs	621	720
Lease liabilities	437	466
Stock-based compensation	217	319
Accrued compensation	655	591
Other	641	553
Total deferred tax assets	**5,133**	**5,265**
Deferred Tax Liabilities		
Depreciation	(24)	(14)
Right of use asset	(431)	(464)
Prepaid expenses	(32)	(86)
Other	(44)	(675)
Total deferred tax liabilities	**(531)**	**(1,239)**
Net deferred tax assets	**$ 4,602**	**$ 4,026**

Net deferred tax assets are included in other assets on the consolidated balance sheets. Management has assessed the likelihood that the deferred tax assets will be realized and believes it is more likely than not that all deferred tax assets will be realized in the normal course of business. The Company recognizes penalties and interest related to unrecognized tax benefits in the provision for income taxes. The Company recognized no significant penalties or interest during the years ended December 31, 2023 and 2022. No liability related to uncertain tax positions was recorded during the years ended December 31, 2023 and 2022. Federal tax returns for the years 2020 through 2023 remain subject to examination. State returns for the years 2019 through 2023 also remain subject to examination.

Note 16 - Derivatives

Derivatives Provided as a Service to Customers

Derivatives in which the Company is an intermediary arise when the Company enters into derivative contracts with customer banks and offsetting derivative contracts with other counterparties to meet the needs of its customers. The notional principal of interest rate exchange agreements arising from the Company entering into derivative contracts with customers and offsetting derivative contracts, including centrally cleared, with other counterparties was approximately $13.1 billion at December 31, 2023 and $12.6 billion at December 31, 2022.

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing an interest rate exchange agreement that has a net positive market value if the counterparty defaults; this amount is substantially less than the notional amount.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At December 31, 2023 and 2022, the Bank's maximum credit risk, as defined above, was estimated at approximately $162.9 million and $219.5 million, respectively. The legal right to offset assets and liabilities by a counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty) is considered in determining the maximum credit risk. The Bank's primary source of collateral for customer derivative transactions is commercial real estate interest in the form of first trust deeds. The Bank also held cash, time deposits, and investment grade securities valued at approximately $139.1 million and $199.2 million as collateral from counterparties as of December 31, 2023 and 2022, respectively. No collateral held at the Bank from counterparties was repledged to other counterparties at December 31, 2023 and 2022. Cash collateral for initial margin posted for centrally cleared derivatives was $103.1 million and $111.5 million as of December 31, 2023 and 2022, respectively. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell and distribute consolidated obligations.

The Company has policies and procedures in place that are designed to manage the derivatives provided as a service to customers to an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis. The commercial real estate properties securing the Company's derivatives provided as a service to customers are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry.

The fair values of derivative contracts are located separately on the consolidated balance sheets. Net gains from the change in fair value of derivatives and realized gains on derivative contract settlements are separately located on the consolidated statements of income. For centrally cleared derivatives, daily variation margin payments are recognized as settlements on the consolidated statements of income and result in fair value of $0 on the balance sheet. For the years ended December 31, 2023 and 2022, the Company cleared total notional of $4.4 billion and $4.2 billion, respectively.

Note 16 – Derivatives (Cont.)

Derivatives Provided as a Service to Customers (Cont.)

Derivatives not designated as hedging instruments are as follows at December 31, 2023 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	$ 2,934,217	$ 163,070	$ 5,786,283	$ (498,562)

Derivatives not designated as hedging instruments are as follows at December 31, 2022 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	$ 2,649,973	$ 219,895	$ 5,877,280	$ (649,052)

Derivatives Summary

The gross positive and negative fair values of derivatives are as follows (in thousands):

	2023		2022	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest Rate Swap Agreements				
Gross positive fair value	$ 2,353,819	$ 204,824	$ 1,885,129	$ 235,367
Gross negative fair value	6,366,681	(540,316)	6,642,125	(664,524)

Note 16 – Derivatives (Cont.)

Balance Sheet Offsetting

The Company is party to master netting arrangements with certain financial institution counterparties. The master netting arrangements provide for a single net settlement of derivative agreements, as well as collateral, in the event of a default on, or termination of, any one contract. Collateral, usually in the form of marketable securities or deposit accounts, is posted by the counterparty, with net liability positions in accordance with contract thresholds.

The following table presents the assets and liabilities:

Subject to an Enforceable Master Netting Arrangement as of December 31

Description	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets or Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Net Amount
December 31, 2023					
Derivatives assets at fair value	$ 183,455	$ (24,957)	$ 158,498	$ 4,572	$ 163,070
Derivatives liabilities at fair value	(24,957)	24,957	- -	(498,561)	(498,561)
December 31, 2022					
Derivatives assets at fair value	$ 234,439	$ (14,679)	$ 219,760	$ 135	$ 219,895
Derivatives liabilities at fair value	(14,679)	14,679	- -	(649,052)	(649,052)

Note 17 - Financial Instruments and Fair Value

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of those instruments and is usually limited to amounts funded or drawn. The contract or notional amounts of these agreements, which are not included on the consolidated balance sheets, are an indicator of the Bank's credit exposure. Commitments to extend credit generally carry variable interest rates and are subject to the same credit standards used in the lending process for on-balance-sheet instruments. Additionally, the Bank periodically reassesses the customer's creditworthiness through ongoing credit reviews. The Bank generally requires collateral or other security to support commitments to extend credit. A summary of the Bank's commitments at December 31 is as follows (in thousands):

	2023	2022
Financial instruments whose contract amounts represent credit risk:		
Undisbursed loan commitments	$ 23,435	$ 21,897
Total commitments to extend credit	**$ 23,435**	**$ 21,897**

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. Total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial and residential properties.

Note 17 - Financial Instruments and Fair Value (Cont.)

Assets and Liabilities Measured at Fair Value

The following are assets and liabilities measured at fair value on a recurring basis (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2023				
Assets at fair value:				
Securities available for sale:				
U.S. government agency mortgage-backed securities	$ - -	$ 143,994	$ - -	$ 143,994
Interest rate swaps	- -	162,884	- -	162,884
FX forward contracts	- -	4	- -	4
Total	**$ - -**	**$ 306,882**	**$ - -**	**$ 306,882**
Liabilities at fair value				
Interest rate swaps	$ - -	$ 498,561	$ - -	$ 498,561
	$ - -	**$ 498,561**	**$ - -**	**$ 498,561**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2022				
Assets at fair value:				
Securities available for sale:				
U.S. government agency mortgage-backed securities	$ - -	$ 167,720	$ - -	$ 167,720
Interest rate swaps	- -	219,544	- -	219,544
FX forward contracts	- -	3	- -	3
Total	**$ - -**	**$ 387,267**	**$ - -**	**$ 387,267**
Liabilities at fair value				
Interest rate swaps	$ - -	$ 649,052	$ - -	$ 649,052
	$ - -	**$ 649,052**	**$ - -**	**$ 649,052**

Note 17 - Financial Instruments and Fair Value (Cont.)

Assets and Liabilities Measured at Fair Value (Cont.)

Securities available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things.

Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes internal valuation models with observable market data inputs to estimate fair values of interest rate swaps. The Company also obtains dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations.

For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of collateral securing the position. The Company reviews its counterparty exposure on a regular basis and, when necessary, appropriate business actions are taken to adjust the exposure. The Company also utilizes this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to counterparty’s inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Under ASC 310, Receivables, certain individually evaluated loans are reported at fair value of the underlying collateral less costs to sell if repayment is based solely from collateral.

Note 18 - Regulatory Matters

The Bank and the Company are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that, if undertaken, could have a direct material effect in the Company’s consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of common equity Tier 1 (as defined in the regulations), total capital, and Tier 1 capital (as defined) to risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023, the Bank and the Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2023, the most recent notification from the FRB categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank’s category.

The Bank’s and the Company’s actual capital amounts and ratios are also presented as follows (in thousands, except for ratio inputs).

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, are fully phased-in for the Company on January 1, 2019. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set

Note 18 - Regulatory Matters (Cont.)

forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

The Company's Common Equity Tier 1 capital includes common stock and related paid-in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, the Company elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for the Company is reduced by, goodwill and other intangible assets, net of associated deferred tax liabilities, and subject to transition provisions.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for the Company includes a permissible portion of the allowance for loan losses. Tier 2 capital for the Company also includes trust preferred securities that were excluded from Tier 1 capital.

The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on the regulatory requirements and include total assets, with certain exclusions, allocated by risk-weighted category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

The Basel III Capital Rules require the Bank to hold an additional capital conservation buffer (CCB) or face restrictions on certain capital distributions, including dividends, share purchases, and discretionary executive officer bonuses and payments on Tier 1 instruments. The CCB elements require the Bank to maintain (i) a minimum ratio of Common Equity Tier I capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier I capital ratio, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

Note 18 - Regulatory Matters (Cont.)

Bank Ratio	Actual		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
December 31, 2023				
Tier 1 common equity (to risk-weighted assets)	$ 137,420	30.46%	$ 31,582	7.00%
Tier 1 capital (to average assets)	137,420	10.20%	53,901	4.00%
Tier 1 capital (to risk-weighted assets)	137,420	30.46%	38,349	8.50%
Total capital (to risk-weighted assets)	141,097	31.27%	47,373	10.50%
December 31, 2022				
Tier 1 common equity (to risk-weighted assets)	$ 135,776	35.22%	$ 25,058	6.50%
Tier 1 capital (to average assets)	135,776	9.64%	70,396	5.00%
Tier 1 capital (to risk-weighted assets)	135,776	35.22%	30,840	8.00%
Total capital (to risk-weighted assets)	139,085	36.08%	38,550	10.00%

Note 19 - Other Comprehensive Income (Loss)

The components of comprehensive income (loss) as it relates to securities available for sale as follows (in thousands):

	Before-Tax Amount	Income Tax	Net-of-Tax Amount
Year Ended December 31, 2023			
Beginning of year balance	$ (2,986)	$ 866	$ (2,120)
Net unrealized holding loss arising during the year	974	(283)	691
Net unrealized loss	**$ (2,012)**	**$ 583**	**$ (1,429)**
Year Ended December 31, 2022			
Beginning of year balance	$ 1,041	$ (302)	$ 739
Net unrealized holding gain arising during the year	(4,027)	1,168	(2,859)
Net unrealized loss	**$ (2,986)**	**$ 866**	**$ (2,120)**

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