COMMUNITY VALLEY BANK ANNUAL REPORT 2023

COMMUNITY

VALLEY BANK

A SUBSIDIARY OF CMUV BANCORP

Banking THAT BUILDS

As community banks like CVB had to fight public concerns regarding their viability, our loyal customer base, combined with strong, consistent financial results, allowed CVB to weather the financial storm of 2023.

81701 Highway 111 Indio, CA 92201

LETTER TO OUR SHAREHOLDERS

Community Valley Bank (CVB), a subsidiary of CMUV Bancorp, is pleased to present its Fiscal Year 2023 operating results and Annual Report to our shareholders. 2023 began with tough conditions due to the higher interest rates, but it was the regional banking crisis which exploded by the end of the 1st Quarter that completely changed the landscape for small to mid-size banks. As a number of regional banks failed, community banks like CVB had to fight public concerns regarding their viability. Thankfully, our loyal customer base combined with strong, consistent financial results allowed CVB to weather the storm. CVB saw growth in both the loan and deposit portfolios, and most importantly, CVB produced net income/profitability on par with the results from Fiscal Year 2022. Our three-year financial recap follows.

Total Assets grew to just under $300 MM in 2023.

Total Assets (CVB)	
2021	$277,103,953
2022	$277,618,771
2023	$297,040,638

CVB deposits grew by just under ten percent in 2023.

Total Deposits (CVB)	
2021	$239,786,970
2022	$239,255,677
2023	$259,604,962

Loans (net of Loss Reserve) grew another 3.2% in 2023. Loans are now up 10% since FYE 2021.

Loans - Net (CVB)	
2021	$ 208,754,176
2022	$ 222,064,630
2023	$ 229,390,546

Earnings per share remained mostly unchanged in 2023 from the prior year.

Earnings Per Share (CMUV)	
2021	$2.76
2022	$2.00
2023	$1.98

Delivering solid financial results year after year.

Net Income (CVB)	
*2021	$ 5,198,800
2022	$ 4,140,764
2023	$4,004,744

- 2021 included significant net income from one-time PPP Loans

Predictions and forecasts are often dramatically affected by economic situations outside of CVB's control. In 2023, our projected outlook was a forecasted ROAA at 1.30, ROAE at 12.5, and earnings per share at $2.00. Final results came in as follows: ROAA at 1.37, ROAE at 12.37, and earnings per share at $1.98. With all the banking sector challenges in 2023, the results CVB delivered are remarkable. CVB's consistent financial results allowed the CMUV Board of Directors to issue a stock buy-back program in the 4th Quarter of 2023, resulting in the re-purchase of 70,225 shares. Additionally, the CMUV Board approved an increase in the quarterly dividend to $0.12 per share.

Projected Outlook of 2024

Will they, won't they, should they! The big question in 2024 for the financial sector is what the FED will do with interest rates. At the beginning of 2024, many of the so-called experts were predicting the FED to cut rates 4-6 times, with one even predicting 11 cuts. Late into the 1st quarter of 2024, some sense of reality has now hit the "experts", and more realistic projections are 3-4 rate cuts in the 2nd half of 2024. CVB Management is of the belief that there will be little, if any, change to rates in 2024, and unfortunately a minimal change to the interest rate environment means continual challenges for FY 2024 loan growth.

With that said, CVB's FY 2024 financial forecast is in the range of the following: Earnings Per Share of $2.25, ROAA of 1.35, and ROAA of 12.0. This may not offer the most exciting of forecasts, but delivering these consistent financial results keep us well above peer group average and delivering for our shareholders – the hallmark of CVB.

We thank you for your continued faith and support In Your Community Valley Bank.

Sincerely,

Ronald R. Rubin

Jon A. Edney

Building TEAMWORK

EXECUTIVE TEAM

RONALD RUBIN
Chairman of the Board

JON A. EDNEY
President/Chief Executive Officer
Director

CINDY RODRIGUEZ
Chief Credit Officer

SARAH CHAIREZ
Chief Financial Officer

ALEX WELLS
Chief Business Officer

LAURA F. OJEDA
Chief Operating Officer

DIRECTORS

JORDANA SELWICK
Vice Chairman of the Board

BILL BRANDENBERG
Secretary of the Board

MICHEAL BRACKEN
Director

ALEJANDRO CALDERON
Director

THOMAS MARTIN
Director

SCOTT SLOCUM
Director

TONI UMPHREYVILLE
Director

VINCENT WHITTAKER
Director

"CVB stepped up to the plate with a business loan and made the process very easy and pleasant."

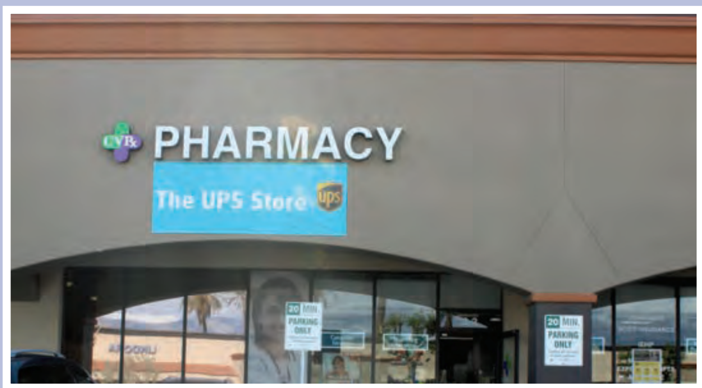
DARREN SMITH
Smith-Kandal Insurance & Real Estate

It's a Family Thing

Celebrating 90 years of existence, Smith-Kandal has maintained a family base. A plaque in their office in Brawley tells the story.

"In 1936, S (Stanley) Quay Smith started his Insurance and Real Estate Agency in the City of Brawley. His son Sherman M. Smith later joined and partner Clair W. Mitchell... In 1971, Kevin C. Smith, Sherman's son, joined the agency and the stage was set to move the company to the next level. In 1988, Greg Smith joined his father and brother creating a true family tradition... In 1995 Smith-Mitchell merged with Kandal Insurance Agency to form what is known today as Smith-Kandal Insurance & Real Estate."

Darren Smith, now heading the agency, which employs a staff of 15, says they chose Community Valley Bank because it is important that they do business locally. He points out that everyone at CVB knows their names, making working with them a very pleasant experience.



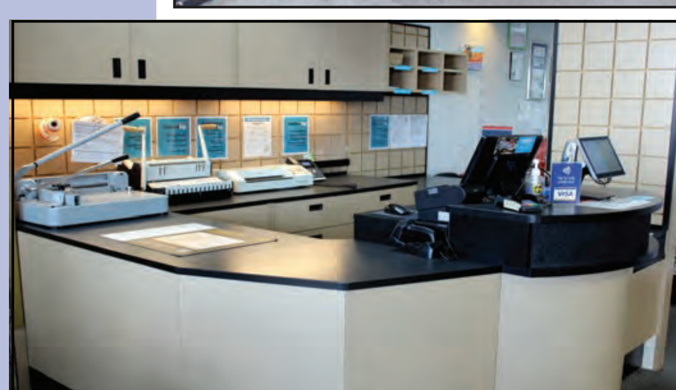
LEIF DE LA LUNA
Coachella Valley Pharmacy

A Variety of Services

Established in 2016, Coachella Valley Pharmacy is a comprehensive retail pharmacy which provides local delivery services to their clients. The pharmacy was a community hub for immunization and COVID 19 vaccinations throughout the pandemic and continues to extend their reach, collaborating with the Riverside Health Department and the Desert Healthcare District and Foundation to facilitate mass immunization in the area. In 2019, services were extended by opening a long-term care pharmacy and the UPS Store Franchise. The Coachella Valley Long Term Care Pharmacy segment is designed to provide specialized services for distinct medical needs.

When asked why the company chose Community Valley Bank, owner Leif De La Luna says, *"For start-up enterprises, it is crucial to select a banking partner that not only believes in your potential but also provides the essential financial backing required for achieving your objectives and attaining success."*

"CVB has been a steadfast ally, supporting us in broadening our service offerings and locations to encompass the UPS Store Franchise and the Long Term Care Pharmacy. We look forward to embarking on future business endeavors with confidence, knowing that Community Valley Bank is there to support us."



Banking THAT **BUILDS**

ERIC & TARA DOLLENTE
Industrial Mechanical Services Inc.

Working with Renewable energy Industries

"We're very thankful to have a local bank grow along side us. CVB has given us peace of mind."

Located in Imperial County, where geothermal, bio-diesel, renewable and green energy industries abound, Industrial Mechanical Services offers an experienced group of personnel certified in Safety, Welding and Crane Operations. Since its inception in 2013, IMS provides services to both the public and private sectors. Owners Eric and Tara Dollente have built strong relationships with local machine shops, electrical and civil contractors.

When asked why IMS chose Community Valley Bank for its business banking, Dollente said, *"Our business has grown so much in the last few years, we chose CVB so we could get help if we ever needed it."*

2023
COMMUNITY VALLEY BANK
FINANCIAL REPORT

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
CMUV Bancorp and Subsidiary
El Centro, California

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of CMUV Bancorp and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMUV Bancorp and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CMUV Bancorp and Subsidiary 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective January 1, 2023, CMUV Bancorp and Subsidiary adopted new accounting guidance for the measurement of credit losses on financial instruments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

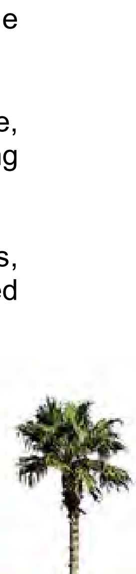
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CMUV Bancorp and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CMUV Bancorp and Subsidiary'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.



Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the letter to shareholders and other information but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

CliftonLarsonAllen LLP

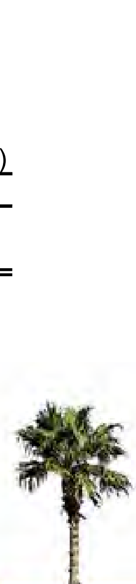
CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 7, 2024

CMUV BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 45,198,376	$ 36,096,948
Securities Available-for-Sale	38,691	73,577
Securities Held-to-Maturity	6,126,808	6,140,704
Loans, Net of Allowance for Credit Losses (1) of $2,534,086 in 2023 and $2,420,834 in 2022	229,571,595	222,290,743
Federal Home Loan Bank Stock, at Cost	1,260,600	1,086,700
Premises and Equipment, Net	7,969,351	5,527,908
Deferred Tax Asset	503,312	499,018
Core Deposit Intangible Asset	149,813	334,954
Bank Owned Life Insurance	4,785,973	4,178,412
Accrued Interest and Other Assets	1,406,288	1,435,458
Total Assets	$ 297,010,807	$ 277,664,422
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-Bearing Demand Accounts	$ 66,740,724	$ 70,066,506
Interest-Bearing Deposits	192,201,880	168,606,477
Total Deposits	258,942,604	238,672,983
Federal Home Loan Bank Advances	2,000,000	4,000,000
Subordinated Debt, Net of Debt Issuance Costs	6,736,274	6,702,607
Accrued Interest Payable and Other Liabilities	716,006	891,953
Total Liabilities	268,394,884	250,267,543
STOCKHOLDERS' EQUITY		
Preferred Stock - 10,000,000 Shares Authorized, No Par Value;		
Common Stock - 10,000,000 Shares Authorized, No Par Value; Shares Issued and Outstanding, 1,772,422 in 2023 and 1,859,551 in 2022	10,159,170	11,662,792
Additional Paid-In Capital	733,429	757,737
Retained Earnings	17,725,503	14,978,797
Accumulated Other Comprehensive Loss	(2,179)	(2,447)
Total Stockholders' Equity	28,615,923	27,396,879
Total Liabilities and Stockholders' Equity	$ 297,010,807	$ 277,664,422

(1) - The Bank adopted ASC 326 as of January 1, 2023. the prior year amounts are calculated under the prior accounting standard.



See accompanying Notes to Consolidated Financial Statements.

CMUV BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
INTEREST INCOME		
Loans, Including Fees	$ 13,417,066	$ 11,006,371
Investment Securities	271,555	170,573
Deposits at Other Institutions	2,123,460	798,774
Federal Funds Sold and Other	126,558	70,525
Total Interest and Dividend Income	15,938,639	12,046,243
INTEREST EXPENSE		
Interest-Bearing Checking, Savings, and Money Market Accounts	2,820,785	858,889
Time Deposits	1,176,900	241,577
Other Borrowings	69,246	91,810
Subordinated Debentures	253,750	271,835
Total Interest Expense	4,320,681	1,464,111
NET INTEREST INCOME	11,617,958	10,582,132
PROVISION FOR CREDIT LOSSES (1)	135,600	50,000
NET INTEREST INCOME, AFTER PROVISION FOR CREDIT LOSSES (1)	11,482,358	10,532,132
NONINTEREST INCOME		
Service Charges and Fees on Deposits	160,526	157,801
Other Service Charges and Fees	83,191	116,610
Interchange Income	261,778	254,794
Servicing Income on Loans	117,408	209,815
Earnings on Bank Owned Life Insurance	107,561	89,536
Gain on Sale of Loans	-	319,182
Total Noninterest Income	730,464	1,147,738
NONINTEREST EXPENSES		
Salaries and Employee Benefits	3,455,863	3,215,705
Occupancy and Equipment Expenses	634,781	603,336
Other Expenses	3,088,930	2,495,209
Total Noninterest Expenses	7,179,574	6,314,250
INCOME BEFORE INCOME TAXES	5,033,248	5,365,620
INCOME TAX EXPENSE	1,527,533	1,673,341
NET INCOME	3,505,715	3,692,279
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Available-for-Sale Securities, Net	268	(4,257)
TOTAL COMPREHENSIVE INCOME	$ 3,505,983	$ 3,688,022

(1) - The Bank adopted ASC 326 as of January 1, 2023. the prior year amounts are calculated under the prior accounting standard.

See accompanying Notes to Consolidated Financial Statements.

CMUV BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2023 AND 2022

	Common Stock		Additional	Retained	Accumulated Other	
	Shares	Amount	Paid-In Capital	Earnings	Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2021	1,839,831	$ 11,547,962	$ 743,925	$ 12,017,659	$ 1,810	$ 24,311,356
Net Income	-	-	-	3,692,279	-	3,692,279
Stock-Based Compensation Cost	-	-	120,037	-	-	120,037
Exercise of Stock Options	1,720	8,605	-	-	-	8,605
Cash Dividends Declared	-	-	-	(731,141)	-	(731,141)
Issuance of Restricted Shares	18,000	-	-	-	-	-
Vesting of Restricted Shares	-	106,225	(106,225)	-	-	-
Other Comprehensive Loss, Net of Tax	-	-	-	-	(4,257)	(4,257)
BALANCE - DECEMBER 31, 2022	1,859,551	11,662,792	757,737	14,978,797	(2,447)	27,396,879
Net Income	-	-	-	3,505,715	-	3,505,715
Stock-Based Compensation Cost	-	-	158,418	-	-	158,418
Exercise of Stock Options	11,100	77,674	-	-	-	77,674
Cash Dividends Declared	-	-	-	(759,009)	-	(759,009)
Issuance of Restricted Shares	22,500	-	-	-	-	-
Vesting of Restricted Shares	-	182,726	(182,726)	-	-	-
Forfeiture of Restricted Shares	(2,500)	-	-	-	-	-
Repurchased and Retired Shares	(118,229)	(1,764,022)	-	-	-	(1,764,022)
Other Comprehensive Income, Net of Tax	-	-	-	-	268	268
BALANCE - DECEMBER 31, 2023	1,772,422	$ 10,159,170	$ 733,429	$ 17,725,503	$ (2,179)	$ 28,615,923

See accompanying Notes to Consolidated Financial Statements.

CMUV BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 3,505,715	$ 3,692,279
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	356,753	310,155
Provision for Credit Losses (1)	135,600	50,000
Bank Owned Life Insurance	(607,561)	(89,535)
Deferred Tax Expense (Benefit)	(4,408)	58,589
Increase (Decrease) in Deferred Loan Cost, Net of Deferred Loan Fees	78,437	(146,255)
Amortization of Servicing Rights	61,991	29,715
Capitalization of Servicing Rights	-	(105,286)
Gain on Sale of Loans	-	(319,182)
Stock-Based Compensation Cost	158,418	120,037
Core Deposit Intangible Premium Amortization	185,141	185,141
Net Change in Accrued Interest Payable and Receivable	(208,768)	(174,313)
Net Cash Provided by Operating Activities	3,661,318	3,611,345
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Paydowns and Maturities of Securities Available-for-Sale	34,160	50,446
Purchases of Securities Held-to-Maturity	-	(5,500,000)
Net Increase in Loans	(7,494,889)	(16,932,662)
Purchase of Federal Home Loan Bank Stock	(173,900)	(112,000)
Proceeds from Sales of Loans	-	4,018,757
Purchases of Premises and Equipment	(2,749,525)	(326,347)
Net Cash Used by Investing Activities	(10,384,154)	(18,801,806)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Decrease) Increase in Noninterest Bearing Deposits	(3,325,782)	(3,600,710)
Net Increase in Interest-Bearing Deposits	23,595,403	3,675,353
Repayments of Federal Home Loan Bank Advances	(2,000,000)	(2,000,000)
Proceeds from Exercise of Stock Options	77,674	8,605
Redemption of Subordinated Debt, Net of Issuance Costs	-	(466,333)
Payment for Repurchased Shares	(1,764,022)	-
Cash Dividends Paid on Common Stock	(759,009)	(731,141)
Net Cash Provided (Used) by Financing Activities	15,824,264	(3,114,226)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,101,428	(18,304,687)
Cash and Cash Equivalents - Beginning of Year	36,096,948	54,401,635
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 45,198,376	$ 36,096,948
SUPPLEMENTAL CASH FLOWS DISCLOSURES		
Noncash Investing Activities:		
Interest Paid	$ 3,995,876	$ 1,137,922
Taxes Paid	$ 1,531,941	$ 1,503,752

(1) - The Bank adopted ASC 326 as of January 1, 2023. the prior year amounts are calculated under the prior accounting standard.

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

CMUV Bancorp (the Holding Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary Community Valley Bank (the Bank). The Bank provides a variety of financial services to individuals and businesses including the origination of commercial, mortgage, and consumer loans and receipt of deposits from customers, operating five full-service branches in El Centro, Brawley, Borrego Springs, Indio, and Julian, California.

The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the state of California and the Federal Deposit Insurance Company.

Principles of Consolidation

The consolidated financial statements include the amounts of CMUV Bancorp and its wholly owned subsidiary, Community Valley Bank (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimate that is particularly susceptible to significant change in the near term include determination of the allowance for credit losses.

Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Imperial, Riverside, and San Diego Counties in California. Note 2 discusses the types of securities that the Company invests in. Note 3 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations in any one industry or customer.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which have an original maturity within 90 days. Cash flows from loans and deposits are reported net.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities

Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available for sale are included in other income or expense and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Effective January 1, 2023, with the adoption of ASC 326, for available for sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria are met, the security's amortized costs basis is written down to fair value through income. If these criteria are not met, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, which is limited by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income (loss). Changes in the allowance for credit losses are recorded as a provision for credit loss. Prior to the adoption of ASC 326, the Bank used an other than temporary impairment model.

Effective January 1, 2023, with the adoption of ASC 326, for held to maturity debt securities, management measures expected credit losses on a collective basis by major security type. Prior to the adoption of ASC 326, the Bank used an other than temporary impairment model.

Restricted Stock, at Cost

The Bank is a member of the Federal Home Loan Bank of San Francisco (FHLB). Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. Restricted stock is carried at cost and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery at par value. Both cash and stock dividends are reported as interest income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, any deferred fees or costs on originated loans, and premiums or discounts on purchased loans.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectibility. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received, and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees and costs is discontinued when a loan is placed on nonaccrual status.

Allowance for Credit Losses

The allowance for credit losses (allowance) is an estimate of loan losses inherent in the Company's loan portfolio. The allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Once loans are downgraded to substandard, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off when, in management's judgment, they are considered to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

Effective, January 1, 2023, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loan losses are charged off against the allowance for credit losses on loans when the Bank determines the loan balance to be uncollectible.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans. The Company elected to exclude accrued interest receivable from the amortized cost basis of loans.

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for qualitative or environmental factors that cause the estimate for expected losses as of the evaluation date to differ from historical loss experience. Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type, and internal risk ratings. For loans that do not share similar risk characteristics with other loans such as government guaranteed loans, cash secured loans and collateral dependent loans, expected credit losses are estimated on an individual basis.

The Company utilized a modified Scaled CECL Allowance for Credit Losses Estimator (SCALE) method for determining the allowance for credit losses, as provided by the Federal Reserve. This modified SCALE method is anchored in historical credit loss experience, with an emphasis on portfolio data. The Company's look-back period includes January 2011 through the current period. The Company's historical credit loss experience is supplemented by external peer loss data. The external peer loss data look-back period includes January 2007 through the current period.

Qualitative adjustments reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization such as concentration management and other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to changes in; (i) volume and severity of past due loans, nonaccrual loans and adversely classified or graded loans, (ii) nature and volume of the portfolio and in the terms of loans, (iii) levels of concentrations, (iv) international, national, regional, and local economic and business conditions, (v) lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices, (vi) experience, ability, and depth of lending management and other relevant staff, (vii) quality of the institution's loan review system, (viii) value of underlying collateral, and (ix) other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The Company's CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional, and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

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

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

Watch: Loans classified as watch possess potential weaknesses that require management attention, but do not yet warrant adverse classification. While the status of a loan put on this list may not technically trigger their classification as substandard or doubtful, it is considered a proactive way to identify potential issues and address them before the situation deteriorates further and does result in a loss for the Company.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow, or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

Loss: Loans classified as loss are considered uncollectible and charged-off immediately.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

The risk rated loan portfolio segments and related risk characteristics are described as follows:

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

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial and Industrial: Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Consumer and Other Loans: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance for credit losses on loans to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance for credit losses on loans, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. In addition, the Company's primary regulator reviews the adequacy of the allowance. The regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Prior to the adoption of ASC 326, the Bank used an incurred loss model to measure an allowance for loan losses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Balance-Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded. Expected credit losses related to off-balance sheet credit exposures are estimated over the contractual period for which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. Expected credit losses are estimated using similar methodologies employed to estimate expected credit losses on loans, taking into consideration the likelihood and extent of additional amounts expected to be funded over the terms of the commitments. The liability for credit losses on off-balance sheet credit exposures is presented within other liabilities on the balance sheets. Adjustments to the liability are included in the provision for credit losses.

Premises and Equipment

Land is carried at cost. Other premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in Accrued Interest and Other Assets and Accrued Interest Payable and Other Liabilities.

Right-of-use (ROU) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the balance sheets. The ROU assets and corresponding lease liabilities are not significant to the financial statements as of the years ending December 31, 2023 and 2022.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Company has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Core Deposit Intangible Asset

The Company records the estimated fair value of the deposit base acquired in an acquisition as a core deposit intangible asset. The recorded amount is amortized on a straight-line basis over the estimated life of the deposits acquired.

Loan Sales and Servicing of Financial Assets

The Company originates Small Business Administration (SBA) and United States Department of Agriculture (USDA) loans for sale in the secondary market. Loan servicing rights are recognized as separate assets when rights are acquired through sale of loans. For sales of loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future servicing income of the underlying loans.

Loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of servicing rights is netted against loan servicing fee income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized, if lower.

Transfers of Financial Assets and Participating Interests

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

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities.

Under GAAP, a valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The expected realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Company follows the guidance for accounting for uncertainty in income taxes. The Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. See Note 10 – Income Taxes, for additional disclosures. The Company recognizes both interest and penalties as components of other operating expenses.

The amount of the uncertain tax position was not determined to be material. It is not expected that the unrecognized tax benefit will be material within the next 12 months. The Company did not recognize any interest or penalties in 2023 or 2022.

The Company files consolidated federal and state income tax returns and it is not subject to federal and state income tax examinations for taxable years prior to 2020.

Comprehensive Income

Recognized revenue, expenses, gains, and losses are included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period, excluding outstanding participating securities. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Stock Compensation Plans

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

See Note 14 for additional information on the Company's Equity Incentive Plan.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition – Noninterest Income

The Company recognizes revenue in accordance with *Revenue from Contracts with Customers (Topic 606)*. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to Noninterest Income such as other service charges and fees, interchange fee income and gains/losses on OREO sales. Revenue recognition policies for significant components of Noninterest Income considered to be in the scope of Topic 606 are as follows:

Service Charges and Fees on Deposits and Other Service Charges and Fees

The Company earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as nonsufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Interchange Income

Interchange fees represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

New Accounting Pronouncements

On January 1, 2023, the Bank adopted ASU 2016-03, *Financial Instruments – Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology (CECL). The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity securities. It also applies to off-balance sheet credit exposures such as loan commitments and standby letters of credit. In addition, changes were made to the accounting for available for sale securities, which requires credit losses to be presented as an allowance rather than as a direct write-down of the available for sale securities when management does not intend to sell or believes that it is more likely than not that they will be required to sell. The Bank adopted the standard using the modified retrospective method for all financial assets measured at amortized cost and for off-balance sheet credit exposures. Results for annual periods beginning after January 1, 2023, are presented under the new CECL model while prior reporting periods continue to be reported in accordance with previously applicable GAAP.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

The Bank did not record a cumulative adjustment to retained earnings as the adoption did not produce a calculation different than the calculation under the prior accounting standard.

On March 31, 2022, FASB issued ASU 2022-02, Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures, which eliminates the troubled debt restructuring (TDR), accounting model for creditors that have adopted Topic 326, Financial Instruments – Credit Losses. In addition, on a prospective basis, entities will be subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. The standard is effective for fiscal years beginning after December 15, 2022. Upon adoption of this guidance, the Bank no longer establishes a specific reserve for modifications made on or after January 1, 2023, to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan segment in the allowance for credit losses on loans. The Bank has adopted ASU 2022-02 effective on January 1, 2023. The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 7, 2024, the date the consolidated financial statements were available to be issued.

NOTE 2 SECURITIES

The amortized cost of securities and their fair values, with gross unrealized gains and losses as of December 31, 2023 and 2022, are as follows:

	2023			
Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-Backed:				
GSE Residential	$ 41,804	$ -	$ (3,113)	$ 38,691
Total Securities Available for Sale	$ 41,804	$ -	$ (3,113)	$ 38,691

	2023			
Securities Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities	$ 626,808	$ -	$ (1,196)	$ 625,612
Corporate Bonds	5,500,000	-	(939,919)	4,560,081
Total Securities Held to Maturity	$ 6,126,808	$ -	$ (941,115)	$ 5,185,693

NOTE 2 SECURITIES (CONTINUED)

	2022			
Securities Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-Backed:				
GSE Residential	$ 77,069	$ -	$ (3,492)	$ 73,577
Total Securities Available for Sale	$ 77,069	$ -	$ (3,492)	$ 73,577

	2022			
Securities Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal Securities	$ 640,704	$ -	$ (2,224)	$ 638,480
Corporate Bonds	5,500,000	-	(490,540)	5,009,460
Total Securities Held to Maturity	$ 6,140,704	$ -	$ (492,764)	$ 5,647,940

The amortized cost and fair value of securities as of December 31, 2023, by contractual maturity, are as follows:

	Available for Sales		Held to Maturity	
Securities Maturing in:	Amortized Cost	Fair Value	Amortized Cost	Fair Value
After One Year Through Five Years	$ 41,804	$ 38,691	$ 6,126,808	$ 5,185,693
Total	$ 41,804	$ 38,691	$ 6,126,808	$ 5,185,693

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

During 2023 and 2022, the Company did not sell any securities.

There are no securities pledged as of December 31, 2023 and 2022.

NOTE 2 SECURITIES (CONTINUED)

Gross unrealized losses on securities available for sale and held to maturity and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

December 31, 2023	Less than 12 Months		Over 12 Months			
Securities Available for Sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Gross Unrealized Losses	Total Fair Value
Debt Securities:						
Mortgage-Backed:						
GSE Residential	$ -	$ -	$ 38,691	$ (3,113)	$ (3,113)	$ 38,691
Total Securities Available for Sale	$ -	$ -	$ 38,691	$ (3,113)	$ (3,113)	$ 38,691
Securities Held to Maturity						
Municipal Securities	$ -	$ -	$ 625,612	$ (1,196)	$ (1,196)	$ 625,612
Corporate Bonds	-	-	4,560,081	(939,919)	(939,919)	4,560,081
Total Securities Held to Maturity	$ -	$ -	$ 5,185,693	$ (941,115)	$ (941,115)	$ 5,185,693

December 31, 2022	Less than 12 Months		Over 12 Months			
Securities Available for Sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Gross Unrealized Losses	Total Fair Value
Debt Securities:						
Mortgage-Backed:						
GSE Residential	$ 73,577	$ (3,492)	$ -	$ -	$ (3,492)	$ 73,577
Total Securities Available for Sale	$ 73,577	$ (3,492)	$ -	$ -	$ (3,492)	$ 73,577
Securities Held to Maturity						
Municipal Securities	$ 638,480	$ (2,224)	$ -	$ -	$ (2,224)	$ 638,480
Corporate Bonds	5,009,460	(490,540)	-	-	(490,540)	5,009,460
Total Securities Held to Maturity	$ 5,647,940	$ (492,764)	$ -	$ -	$ (492,764)	$ 5,647,940

The Company does not believe that the available for sale securities that were in an unrealized loss position as of December 31, 2023, which were comprised of 1 individual security, represents a credit loss impairment. The gross unrealized loss positions were related to a mortgage-backed security issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss.

NOTE 2 SECURITIES (CONTINUED)

Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment security that was in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment security before recovery of its amortized cost basis, which may be at maturity.

Substantially all of the Company's held to maturity securities are issued by bank holding companies or state and local municipalities. These securities are subject to credit risk, which is the risk of loss due to the failure of the issuer to make timely principal and interest payments. The Company performs a quarterly analysis of its investment portfolio to assess the credit risk of each security. Based on this analysis, the Company believes that credit risk is not a concern for its investment portfolio, including its holdings of held to maturity securities. Therefore, the Company did not record an allowance for credit losses for these securities as of December 31, 2023. However, there can be no assurance that the Company's analysis will accurately predict future credit risk.

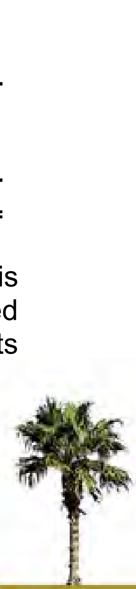
In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

NOTE 3 LOANS

Loans are summarized as follows:

	2023	2022
Construction and Land Development	$ 6,200,656	$ 8,298,594
Commercial Real Estate	210,660,666	198,819,792
Commercial and Industrial	14,456,474	16,709,034
Consumer and Other	172,620	190,455
Total	231,490,416	224,017,875
Allowance for Credit Losses	(2,534,086)	(2,420,834)
Deferred Loan Costs, Net	615,265	693,702
Loans, Net	$ 229,571,595	$ 222,290,743

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans. As of December 31, 2023 and 2022, accrued interest receivable for loans totaled $807,379 and $664,082, respectively, and is included in Accrued Interest and Other Assets on the consolidated balance sheets.



NOTE 3 LOANS (CONTINUED)

A summary of the activity in the allowance for credit losses on loans and loan losses for the year ended December 31, 2023 and 2022, respectively, are as follows. The Company adopted CECL as of January 1, 2023. The prior year amounts presented are calculated under the prior accounting standard.

December 31, 2023	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for Credit Losses:					
Balance at Beginning of Year	$ 76,014	$ 2,073,097	$ 265,671	$ 6,052	$ 2,420,834
Provision for Credit Losses	20,169	170,820	(58,035)	2,646	135,600
Loans Charged-Off	-	-	(16,627)	(7,608)	(24,235)
Recoveries of Loans Previously Charged-Off	-	-	575	1,312	1,887
Balance at End of Year	$ 96,183	$ 2,243,917	$ 191,584	$ 2,402	$ 2,534,086

December 31, 2022	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for Loan Losses:					
Balance at Beginning of Year	$ 121,229	$ 1,954,681	$ 288,979	$ 4,782	$ 2,369,671
Provision for Loan Losses	(45,215)	118,416	(36,280)	13,129	50,050
Loans Charged-Off	-	-	-	(15,388)	(15,388)
Recoveries of Loans Previously Charged-Off	-	-	12,972	3,529	16,501
Balance at End of Year	$ 76,014	$ 2,073,097	$ 265,671	$ 6,052	$ 2,420,834

In addition to the allowance for credit losses on loans above, the Company has established an allowance for credit losses on unfunded commitments, classified in other liabilities on the consolidated balance sheets. The allowance is maintained at a level management believes is sufficient to absorb losses arising from unfunded loan commitments and is determined based on a methodology similar to the methodology for determining the allowance for credit losses on loans. The allowance for credit losses on unfunded commitments as of December 31, 2023 and 2022, was $23,353. The prior year amount is calculated under the prior accounting standard.

The provision for credit losses is determined by the Company as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investments securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The components of the provision for credit losses included in the consolidated statement of income for the year ended December 31, 2023, is wholly attributable to the allowance for credit losses on loans.

NOTE 3 LOANS (CONTINUED)

A loan is considered collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimating selling costs if satisfaction of the loan depends on the sale of the collateral. The following tables present collateral dependent loans by portfolio segment and collateral type, including those loans with and without a related allowance allocation.

The allowance for credit losses for loan considered to be collateral dependent as of December 31, 2023, is as follows:

December 31, 2023	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for Credit Losses:					
Ending Balance: Collateral Dependent	$ -	$ -	$ -	$ -	$ -
Loans:					
Ending Balance: Collateral Dependent	$ -	$ 398,633	$ 15,601	$ -	$ 414,234

Collateral dependent commercial real estate loans are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

The allowance for loan losses for loans evaluated individually and collectively for impairment by collateral class as of the year ended December 31, 2022, is as follows:

December 31, 2022	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Reserves:					
Ending Balance Individually Evaluated of Impairment	$ -	$ -	$ -	$ -	$ -
Ending Balance: Collectively Evaluated for Impairment	$ 76,014	$ 2,073,097	$ 265,671	$ 6,052	$ 2,420,834
Loans:					
Ending Balance: Individually Evaluated for Impairment	$ 1,334,799	$ 461,313	$ -	$ -	$ 1,796,112
Ending Balance: Collectively Evaluated for Impairment	6,963,795	198,358,479	16,709,034	190,455	222,221,763
Recorded Investment	$ 8,298,594	$ 198,819,792	$ 16,709,034	$ 190,455	$ 224,017,875

NOTE 3 LOANS (CONTINUED)

The following tables show the loans allocated by management's internal risk ratings:

December 31, 2023	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
Risk Rating:					
Pass	$ 6,200,656	$ 210,262,033	$ 14,440,873	$ 122,620	$ 231,026,182
Watch	-	-	-	50,000	50,000
Special Mention	-	-	-	-	-
Substandard	-	398,633	15,601	-	414,234
Total	$ 6,200,656	$ 210,660,666	$ 14,456,474	$ 172,620	$ 231,490,416

December 31, 2022	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
Risk Rating:					
Pass	$ 6,963,795	$ 195,135,847	$ 16,215,803	$ 190,455	$ 218,505,900
Watch	-	-	152,968	-	152,968
Special Mention	-	3,222,632	340,263	-	3,562,895
Substandard	1,334,799	461,313	-	-	1,796,112
Total	$ 8,298,594	$ 198,819,792	$ 16,709,034	$ 190,455	$ 224,017,875

The following tables show the aging analysis of the loan portfolio by time past due:

	Accruing Interest				
December 31, 2023	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
Construction and Land Development	$ 6,200,656	$ -	$ -	$ -	$ 6,200,656
Commercial Real Estate and Other	210,262,033	-	-	398,633	210,660,666
Commercial and Industrial	14,440,873	-	-	15,601	14,456,474
Consumer and Other	172,620	-	-	-	172,620
Total	$ 231,076,182	$ -	$ -	$ 414,234	$ 231,490,416

	Accruing Interest				
December 31, 2022	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
Construction and Land Development	$ 6,963,795	$ -	$ -	$ 1,334,799	$ 8,298,594
Commercial Real Estate and Other	198,358,479	-	-	461,313	198,819,792
Commercial and Industrial	16,535,835	-	173,199	-	16,709,034
Consumer and Other	190,455	-	-	-	190,455
Total	$ 222,048,564	$ -	$ 173,199	$ 1,796,112	$ 224,017,875

The amortized cost basis for loans on nonaccrual status for which there is no related allowance credit losses was $414,234 and $1,796,112 for the years ended December 31, 2023 and 2022, respectively.

Interest income foregone on nonaccrual loans approximated $65,687 and $130,902 for the years ended December 31, 2023 and 2022, respectively.

NOTE 3 LOANS (CONTINUED)

The following table presents information related to impaired loans for the year ended December 31, 2022:

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Total Impaired Loans:					
Construction and Land Development	$ 1,334,799	$ 1,334,799	$ -	$ 1,394,218	$ -
Commercial Real Estate	461,313	461,313	-	468,413	-
Total	$ 1,796,112	$ 1,796,112	$ -	$ 1,862,631	$ -

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. There were not any loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023.

The were no loans modified as troubled debt restructuring at December 31, 2022, for which there has been payment default during the period. The Company does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

Beginning in April of 2020, the Company participated in the Paycheck Protection Program (PPP), administrated by the SBA, in assisting businesses impacted by the Coronavirus pandemic. PPP loans are included in commercial and industrial loans, 100% guaranteed by the SBA, and carry a fixed rate of 1.00%. At loan origination, the Company was paid a processing fee from the SBA ranging from 1% to 5% based on the loan size. The Company recognized $-0- and $112,547 of these fees during the years ended December 31, 2023 and 2022, respectively. All of these loans were forgiven by the SBA or repaid by the borrowers in 2022.

The Company purchases the guaranteed portion of SBA and USDA loans from various originating institutions at a premium. At December 31, 2023 and 2022, the Company has approximately $1,349,118 and $2,250,273, respectively, in purchased SBA loans. The unamortized premium related to the purchase of these loans was approximately $41,460 and $77,190 as of December 31, 2023 and 2022, respectively.

The Company also originates and sells loans to the SBA and USDA. At December 31, 2023 and 2022, the Company was servicing approximately $13,615,543 and $21,761,040, respectively. The related loan servicing asset is summarized in Note 5 – Intangible Assets.

NOTE 4 PREMISES AND EQUIPMENT

Components of premises and equipment as of December 31, 2023 and 2022, are as follows:

	2023	2022
Land	$ 1,628,049	$ 1,628,049
Building and Leasehold Improvements	8,249,560	5,674,263
Furniture, Fixtures, and Equipment	1,435,608	1,305,950
Software	871,199	826,629
Subtotal	12,184,416	9,434,891
Less: Accumulated Depreciation	(4,215,065)	(3,906,983)
Total	$ 7,969,351	$ 5,527,908

Depreciation expense for the years ended December 31, 2023 and 2022, amounted to $308,082 and $294,560, respectively.

NOTE 5 INTANGIBLE ASSETS

A core deposit intangible resulted from the purchase of the Borrego Springs branch in 2018 and is being amortized over a period of approximately six years on a straight-line basis. Core deposit intangible as of December 31, 2023 and 2022, is as follows

	December 31, 2023		December 31, 2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets:				
Core Deposit Intangible	$ 1,157,140	$ 1,007,327	$ 1,157,140	$ 822,186

Aggregate amortization expense for the years ended December 31, 2023 and 2022, were $185,141. Remaining amortization is expected to be expensed as follows over the remaining amortization period as follows:

Year Ending December 31,	Annual Amortization Expense
2024	$ 149,813
Total	$ 149,813

Loans serviced for the SBA and USDA are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced was $13,615,543 and $21,761,040 at December 31, 2023 and 2022, respectively.

NOTE 5 INTANGIBLE ASSETS (CONTINUED)

The aggregate fair value of capitalized loan servicing rights included in accrued interest and other assets at December 31, 2023 and 2022, are as follows:

	2023	2022
Loan Servicing Rights:		
Balance at Beginning of Year	$ 283,423	$ 207,852
Amortization of Servicing Rights	(61,991)	(29,715)
Capitalization of Servicing Rights	-	105,286
Balance at End of Year	$ 221,432	$ 283,423

NOTE 6 DEPOSITS

Deposits at December 31, 2023 and 2022, are summarized as follows:

	2023	2022
Noninterest-Bearing Demand Deposits	$ 66,740,724	$ 70,066,506
Interest-Bearing Demand Deposits and Savings	162,152,919	136,603,201
Certificates of Deposit Less than or Equal to $250,000	11,188,276	10,117,881
Certificates of Deposit Greater than $250,000	18,860,685	21,885,395
Total	$ 258,942,604	$ 238,672,983

At December 31, 2023, the scheduled maturities of certificates of deposit are as follows:

Year Ending December 31,	Amount	Weighted Average Interest Rate
2024	$ 25,556,016	3.78%
2025	4,075,990	3.96%
2026	279,455	3.75%
2027	-	0.00%
2028	137,500	3.75%
Total	$ 30,048,961	3.80 %

NOTE 7 BORROWINGS

Correspondent Bank Advances

The Company has a line of credit and letters of credit with the FHLB, secured by certain assets of the Company. As of December 31, 2023 and 2022, the Company had a total borrowing capacity of approximately $36.5 million and $33.5 million, respectively, that was collateralized by loans with a carrying value of approximately $55.9 million and $50.8 million. As of December 31, 2023 and 2022, the Company had $11.0 million and $4.0 million, respectively, in letters of credit. The letters of credit mature in 2024.

NOTE 7 BORROWINGS (CONTINUED)

As of December 31, 2023 and 2022, the Company had advances outstanding under this agreement as follows:

	Weighted Average Rate	2023	2022
Borrowings due March 6, 2023	0.81 %	$ -	$ 2,000,000
Borrowings due March 6, 2025	0.94 %	2,000,000	2,000,000
Total		$ 2,000,000	$ 4,000,000

Subordinated Debt

On October 26, 2021, the Company issued subordinated debt for $7,500,000 at an initial fixed rate of 3.625%, which is payable quarterly in arrears, commencing December 31, 2021, and maturing on October 26, 2031. Beginning October 26, 2026, the interest rate converts to a variable rate equal to the 90-Day Average SOFR plus 2.63%. On December 28, 2022, the Company redeemed subordinated debt of $500,000. Subordinated debt outstanding was $7,000,000 and $7,000,000 net of unamortized issuance costs of $263,726 and $297,393 as of December 31, 2023 and 2022, respectively.

NOTE 8 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company may extend credit to executive officers, directors, and their affiliates. The following table presents the principal balance activity of these loans for the years ended December 31, 2023 and 2022:

	2023	2022
Related Party Loans:		
Balance at Beginning of Year	$ 1,913,000	$ 1,047,000
Advances	1,894,000	5,036,000
Repayments	(3,116,000)	(4,170,000)
Balance at End of Year	$ 691,000	$ 1,913,000

Deposits from related parties held by the Company at December 31, 2023 and 2022, amounted to approximately $9,637,000 and $3,139,000, respectively.

NOTE 9 EARNINGS PER SHARE (EPS)

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

	2023		2022	
	Net Income	Outstanding Shares	Net Income	Outstanding Shares
As Reported	$ 3,505,715	1,772,422	$ 3,693,542	1,859,551
Impact of Weighted Average		82,140		(1,996)
Used in basis EPS	3,505,715	1,854,562	3,693,542	1,857,555
Dilutive Effect of Outstanding Incentive Stock Options		41,313		67,906
Used in Dilutive EPS	$ 3,505,715	1,895,875	$ 3,693,542	1,925,461
Net Income per Share - Basic	$ 1.89		$ 1.99	
Net Income per Share - Diluted	$ 1.85		$ 1.92	

NOTE 10 INCOME TAXES

The components of income tax expense for the years ended December 31, 2023 and 2022, are as follows:

	2023	2022
Current:		
Federal	$ 941,237	$ 1,004,334
State	590,704	610,418
Total	1,531,941	1,614,752
Deferred:		
Federal and State	(4,408)	58,589
Total Income Tax Expense	$ 1,527,533	$ 1,673,341

NOTE 10 INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022, are as follows:

	2023	2022
Deferred Tax Assets:		
Allowance for Credit Losses (1)	$ 655,536	$ 615,448
Pre-Opening Expenses	183,713	152,770
Stock-Based Compensation	19,571	17,601
Unrealized Loss on AFS	934	1,048
Other, Net	134,680	217,053
Total Deferred Tax Assets	994,434	1,003,920
Deferred Tax Liabilities:		
Other, Net	491,122	504,902
Total Deferred Tax Liabilities	491,122	504,902
Net Deferred Tax Assets	$ 503,312	$ 499,018

(1) - The Bank adopted ASC 326 as of January 1, 2023. the prior year amounts are calculated under the prior accounting standard.

A valuation allowance is required for deferred tax assets, if based on available evidence, it is more-likely-than-not that all or some portion of the asset will not be realized due to the inability to generate sufficient taxable income to use the benefit of the deferred tax asset. After evaluating the positive and negative evidence associated with the deferred tax asset, including the consideration of Company cumulative earnings over the recent three-year period, the Company determined that no valuation allowance was necessary at December 31, 2023 and 2022.

NOTE 11 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

At December 31, 2023 and 2022, the following financial instruments whose contract amount represents credit risk were approximately as follows:

	2023	2022
Unfunded Commitments Under Lines of Credit	$ 33,829,000	$ 33,507,000
Standby Letters of Credit	90,000	30,000
Total	$ 33,919,000	$ 33,537,000

NOTE 11 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Standby letters-of-credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

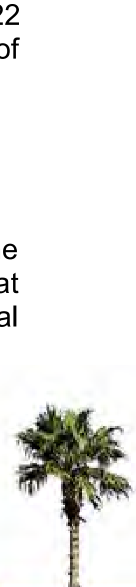
The Company was not required to perform on any financial guarantees and did not incur any losses on its commitments during the past two years.

NOTE 12 DEFERRED COMPENSATION PLAN

The Company has entered into deferred compensation agreements with certain key officers. Under these agreements, the Company is obligated to provide, upon retirement, a lump-sum payment or a five-year benefit to the officers, depending on the agreement. The annual benefits range from $60,000 to $80,000. The Company expenses annually an amount sufficient to accrue the present value of the benefits to be paid to the officer. The expense associated with these agreements was approximately $75,000 in 2023 and $33,000 in 2022 resulting in a deferred compensation liability of approximately $351,000 and $589,000 as of December 31, 2023 and 2022, respectively.

NOTE 13 LEGAL CONTINGENCIES

The Company may be subject to claims and lawsuits which may arise primarily in the ordinary course of business. It is the opinion of management, if such claims are made, that the disposition or ultimate resolution of the claims and lawsuits will not have a material adverse effect on the financial position of the company.



NOTE 14 EQUITY INCENTIVE PLAN

In 2016, the board of directors and shareholders of the Company approved the 2016 Equity incentive Plan (the Plan), which replaced the expired 2007 Stock Option Plan. Under the terms of the Plan, employees may be granted both nonstatutory and incentive stock options, stock appreciation rights, restricted stock and restricted stock units. Directors and consultants may be granted nonstatutory stock options, stock appreciate rights, restricted stock, and restricted stock units. On May 13, 2021, the board of directors and shareholders of the Company ratified an amendment to the Plan to increase the maximum shares of common stock available for grant from 300,000 to 500,000. Nonstatutory and incentive stock options may be exercised at a price not less than 100% of the fair market value of the stock on the date of the grant, expire no later than 10 years from the date of grant and vest in accordance with the vesting schedule specified in the Award Agreement. The Plan provides for accelerated vesting at the discretion of the board of directors. Stock appreciation rights have a base price not less than 100% of the fair market value of the stock on the date of the grant, expire no later than 10 years from the date of the grant and vest in accordance with the vesting schedule specified in the Award agreement.

For the years ended December 31, 2023 and 2022, the Company recognized $158,418 and $120,037, respectively, in compensation expense for stock options.

Incentive Stock Options

The calculated value of each incentive stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Stock options issued in 2023 and 2022 were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2023	2022
Expected Volatility	30.00%	30.00%
Expected Life	5 Years	5 Years
Dividend Yield	0.00%	0.00%
Risk Free Rate	1.88%	1.36% - 3.92%
Grant Date Fair Value	$4.00 - $4.69	$4.33 - $4.76

NOTE 14 EQUITY INCENTIVE PLAN (CONTINUED)

A summary of the status of the Company's incentive stock option plan as of December 31, 2023 and 2022, is presented below:

	2023			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	51,664	$ 7.37		
Granted	1,300	15.45		
Exercised	(11,100)	7.00		
Forfeited or Expired	(1,700)	7.05		
Outstanding at Year-End	40,164	$ 7.74	2.90	$ 303,000
Options Exercisable at Year-End	37,874	$ 7.35	2.53	$ 305,000
Weighted Average Fair Value of Options Granted During the Year		$ 4.61		

	2022			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	69,714	$ 7.27		
Granted	1,600	13.31		
Exercised	(1,720)	5.00		
Forfeited or Expired	(17,930)	7.57		
Outstanding at Year-End	51,664	$ 7.37	4.25	$ 371,000
Options Exercisable at Year-End	48,842	$ 4.08	4.08	$ 366,000
Weighted Average Fair Value of Options Granted During the Year		$ 1.16		

The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2023. This amount changes based on changes in the market value of the Company's stock. The intrinsic value of shares exercised during the years ended December 31, 2023 and 2022, was approximately $97,000 and $15,000, respectively.

As of December 31, 2023, there was approximately $7,000 of total unrecognized compensation cost related to the outstanding incentive stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 4.49 years.

NOTE 14 EQUITY INCENTIVE PLAN (CONTINUED)

Restricted Stock

A summary of the Company's outstanding restricted shares as of December 31, 2023 and 2022, and changes during the years then ended are as follows:

	2023		2022	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at Beginning of Year	29,994	$ 11.89	19,750	$ 9.50
New Stock Grants	22,500	15.71	18,000	13.55
Shares Vested	(12,488)	11.73	(7,756)	9.68
Shares Forfeited	(2,500)	7.80	-	-
Nonvested at Year-End	37,506	$ 14.51	29,994	$ 11.89

Information pertaining to nonvested restricted shares at December 31, 2023, is as follows:

	Nonvested Restricted Shares		
	Issue Price	Nonvested Shares	Remaining Contractual Life
	9.31	3,006	7.02
	13.55	12,000	8.07
	15.70	10,500	9.11
	15.72	12,000	9.94
Total Nonvested Restricted Shares		37,506	

The aggregate intrinsic value of restricted shares vested during the years ended December 31, 2023 and 2022, is approximately $170,000 and $106,000, respectively. As of December 31, 2023, there was approximately $389,000 of total unrecognized compensation cost related to nonvested restricted shares granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.23 years.

NOTE 15 REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal 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 on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

NOTE 15 REGULATORY MATTERS (CONTINUED)

The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of common equity, total, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes that the Bank met all capital adequacy requirements to which they are subject as of December 31, 2023 and 2022. In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of common Tier 1 equity effective January 1, 2019.

As of December 31, 2023, the most recent notification from the regulatory agencies 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 common equity 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.

In September 2019, the FDIC adopted the optional community bank leverage ratio (CBLR) framework provided for in the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. A qualifying community banking organization must have a leverage ratio of 9% or greater, total consolidated assets of less than $10 billion, off-balance sheet exposures of 25% or less of its total consolidated assets, and trading assets and trading liabilities of 5% or less of its total consolidated assets, all as of the end of the most recent quarter.

Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will generally be considered well-capitalized under the agencies' prompt corrective action (PCA) framework and to have met the risk-based and leverage capital requirements in the generally applicable capital rule. A qualifying community banking organization may opt into and out of the CBLR framework by completing the associated reporting requirements on its call report.

NOTE 15 REGULATORY MATTERS (CONTINUED)

The Bank had opted into this framework as of December 31, 2023 and 2022.

The Bank’s actual capital amounts under the recently elected CBLR as of December 31, 2023 and 2022, are presented in the table below.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Tier 1 Capital to Total Assets for the Leverage Ratio	$ 34,572,000	11.80%	$ 11,720,000	4.00%	$ 14,650,000	5.00%
December 31, 2022						
Tier 1 Capital to Total Assets for the Leverage Ratio	$ 33,138,000	12.07%	$ 10,985,000	4.00%	$ 13,732,000	5.00%

Though the Holding Company is not required to maintain similar capital amounts and ratios until total consolidated assets reach or exceed $3 billion, the Holding Company has maintained capital amounts and ratios that are similar to those of the Bank.

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the Bank’s undivided profits of the Bank’s net income for its last three fiscal years less the amount of any distribution made to the Company’s shareholders during the same period.

NOTE 16 FAIR VALUE MEASUREMENTS

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

Subsequent to initial recognition, the Company may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Company measures fair value, refer to Note 1 – Summary of Significant Accounting Policies to the consolidated financial statements.

The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022:

December 31, 2023	Level 1	Level 2	Level 3	Total
Available for Sale Securities:				
Mortgage-Backed Securities	$ -	$ 38,691	$ -	$ 38,691

December 31, 2022	Level 1	Level 2	Level 3	Total
Available for Sale Securities:				
Mortgage-Backed Securities	$ -	$ 73,577	$ -	$ 73,577

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities

When available, the Company uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's securities for which quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds for which no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

NOTE 16 FAIR VALUE MEASUREMENTS (CONTINUED)

Securities (Continued)

Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recognized impairment.

There were no collateral dependent loans or impaired loans recorded at fair value on a nonrecurring basis for the years ended December 31, 2023 and 2022, respectively.

Collateral Dependent Loans (2023)

Collateral dependent loans were individually evaluated under CECL for the year ended December 31, 2023. Collateral dependent commercial real estate loans, both owner occupied and nonowner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

Impaired Loans (2022)

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and writedowns during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

As of December 31, 2022, the fair value of the collateral exceeded the recorded investment in such loan. As these loans did not have an established allowance, they did not require classification in the fair value hierarchy.

CVB *investing in your community*

Community Valley Bank is an active participant, one that acts when called upon. In 2023, we fulfilled this commitment through generous financial contributions to many organizations and events. We believe in causes that focus on education, economic development and organizations that will improve the lives of the members of our community.

AMERICAN DIABETES ASSOCIATION
BORREGO SPRINGS COMMUNITY CONCERT
BORREGO SPRINGS LITTLE LEAGUE
BOYS & GIRLS CLUB OF IMPERIAL VALLEY
BRAWLEY CATTLE CALL RODEO
BRAWLEY CHAMBER OF COMMERCE
BRAWLEY ELKS LODGE #1420
BRAWLEY FEED THE NEED
BRAWLEY LITTLE LEAGUE
BRAWLEY POLICE FOUNDATION
BRAWLEY UNION HIGH SCHOOL
BRAWLEY WRESTLING
BURNING BUSH INTERNATIONAL
CALIPATRIA LITTLE LEAGUE
CATHOLIC CHARITIES DIOCESE OF SAN DIEGO
CENTRAL UNION HIGH SCHOOL
COACHELLA VALLEY RESCUE MISSION
CODY'S CLOSET
D.O.V.E.S.
DAUGHTERS OF AMERICAN REVOLUTION
DESERT ONION GROWERS ASSOCIATION
DUCK'S UNLIMITED
EASY COUNTY PERFORMING ARTS ASSN.
EL CENTRO ROTARY FOUNDATION
FRANKIE L. CHAVEZ MEMORIAL SCHOLARSHIP
HALOS AND TIARAS FOUNDATION
HILLEL INTERNATIONAL
HOLTVILLE CHAMBER OF COMMERCE
INDIO HIGH SCHOOL BASEBALL
INDIO POLICE OFFICERS - JOHN ROSE MEMORIAL
IMPERIAL COUNTY FARM BUREAU
IMPERIAL COUNTY CANCER SUPPORT CENTER
IMPERIAL COUNTY HISTORICAL SOCIETY
IMPERIAL COUNTY COMMUNITY FOUNDATION
IMPERIAL VALLEY CHALLENGER LITTLE LEAGUE
IMPERIAL VALLEY FOOD BANK
IMPERIAL VALLEY GIRLS SOFTBALL LEAGUE
IMPERIAL VALLEY REGIONAL CHAMBER OF COMMERCE
JP2 RADIO
JULIAN CHAMBER OF COMMERCE
JULIAN COMMUNITY HERITAGE FOUNDATION
MAKE-A-WISH - SAN DIEGO
MCCABE ELEMENTARY SCHOOL
NATIONAL CHILD SAFETY COUNCIL
NILAND TOMATO FESTIVAL
PIONEERS MEMORIAL HOSPITAL
RADY'S CHILDREN HOSPITAL SAN DIEGO
RONALD MCDONALD HOUSE CHARITIES - SAN DIEGO
SACRED HEART SCHOOL - BRAWLEY
SONS OF THE AMERICAN LEGION - JULIAN
ST. ELIZABETH OF HUNGARY CATHOLIC CHURCH -JULIAN
ST. MARY'S CATHOLIC CHURCH - EL CENTRO
SUNBEAM LITTLE LEAGUE - EL CENTRO
SURE HELPLINE CENTER
TUNNEL TO TOWERS FOUNDATION
WOMANHAVEN, INC.

1443 Main Street, El Centro, Ca 92243

310 Main Street, Brawley, Ca 92227

2015 Main Street Suite A, Julian, Ca 92036

571 Palm Canyon Drive,Suite A, Borrego Springs, CA 92004

CVB
COMMUNITY
VALLEY BANK

A SUBSIDIARY OF CMUV BANCORP

760.352.1889
www.yourcvb.com
P.O. Box 1808
El Centro,CA 92244