2023
ANNUAL REPORT

CORNERSTONE
COMMUNITY BANCORP

bankcornerstone.com

To Our Valued Shareholders,

2023 was a solid year of performance both in terms of financial and operational success. We're happy to report that Cornerstone Community Bank continues to thrive while managing the many challenges that came our way. Regional bank failures early in the year and elevated interest rates created a demanding banking environment that our Board and Management Team met head on with increased risk modeling, strong underwriting practices, and clear communication with our customers concerning the safety and soundness of the Bank. All of which allowed us the opportunity to not only communicate but demonstrate the following:

- Our diversified, strong and local deposit base with no significant concentrations
- Our continued recognition by agencies around the country for being a high performing, low risk bank
- Our solid on and off balance sheet liquidity
- Our strong relationship with our customers who know and support us
- Our aversion to speculative activity such as crypto-currency

In fact, early in the year many other banks saw deposit runoff but we experienced deposit growth due to several factors, but notably the relationship between our banking staff and our customers.

As the year progressed, Cornerstone's loan portfolio grew, helping to mitigate the effects of the bank's increasing funding costs which were driven by the elevated interest rate. Overall, the bank posted strong earnings and Cornerstone Community Bancorp shareholders enjoyed a Return on Equity of 19.36% for the year.

On the technology front, significant thought and effort was put into rolling out a new and state of the art digital banking system to replace the bank's existing online and mobile banking platform. This new technology officially launched in early 2024 and has been well received by our customers. Cornerstone Community Bank's digital banking now provides customers with cutting edge technology historically only available at the nation's largest banks.

The Cornerstone Community Bank leadership team continues to devote resources to the growth of the bank and investment in the communities we serve. Deep involvement in our communities not only benefits those communities but results in a deeper and wider customer base that supports overall growth and profitability for the bank.

Although 2024 is sure to provide a host of unknown challenges, the team at Cornerstone Community Bank is ready to take those challenges head on. Thank you again for your continued investment in Cornerstone Community Bancorp. We look forward to another incredible year.

Sincerely,

Matthew B. Moseley
President and CEO

Jeffrey P. Finck
Executive Chairman of the Board

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CORNERSTONE COMMUNITY BANCORP AND SUBSIDIARY

Audited Consolidated Financial Statements

December 31, 2023

RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Cornerstone Community Bancorp and Subsidiary
Red Bluff, California

Opinion

We have audited the accompanying consolidated financial statements of Cornerstone Community Bancorp and subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

To the Board of Directors and Shareholders
Cornerstone Community Bancorp and Subsidiary

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Richardson & Company, LLP

March 29, 2024

CORNERSTONE COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(in thousands, except share amounts)

	2023	2022
ASSETS		
Cash and due from banks	$ 8,623	$ 5,628
Interest bearing deposits in other financial institutions	19,694	25,212
Federal funds sold	—	123
Cash and cash equivalents	28,317	30,963
Available for sale debt securities, at fair value (amortized cost of $106,744 and $111,620)	93,065	94,435
Restricted equity securities	3,077	2,992
Loans, net of allowance of $5,813 and $5,159 as of December 31, 2023 and 2022, respectively.	476,399	415,256
Premises and equipment, net	14,326	14,602
Cash surrender value of life insurance	15,529	12,212
Accrued interest receivable and other assets	12,221	12,121
TOTAL ASSETS	$ 642,934	$ 582,581
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest bearing	$ 101,396	$ 126,944
Interest bearing	463,138	407,874
Total deposits	564,534	534,818
Other borrowings	20,000	—
Subordinated debentures	12,000	12,000
Less: unamortized debt issuance costs	(231)	(256)
Subordinated debentures, net of unamortized debt issuance costs	11,769	11,744
Accrued interest payable and other liabilities	3,464	2,754
TOTAL LIABILITIES	599,767	549,316
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 10,000,000 shares authorized, no shares issued and outstanding in 2023 and 2022		
Common stock, no par value; 30,000,000 shares authorized; 1,480,472 and 1,479,862 shares issued and outstanding in 2023 and 2022	15,163	15,075
Retained earnings	37,639	30,295
Accumulated other comprehensive loss	(9,635)	(12,105)
TOTAL SHAREHOLDERS' EQUITY	43,167	33,265
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 642,934	$ 582,581

The accompanying notes are an integral part of these financial statements.

CORNERSTONE COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2023 and 2022
(in thousands, except per share amounts)

	2023	2022
INTEREST INCOME		
Interest and fees on loans	$ 24,886	$ 19,029
Interest on taxable investment securities	2,781	1,885
Interest on tax exempt investment securities	167	169
Dividends	216	171
Interest on deposits in other financial institutions	1,902	902
Interest on federal funds sold	2	2
Total interest income	29,954	22,158
INTEREST EXPENSE		
Interest on deposits	7,543	2,248
Interest on borrowings	606	602
Total interest expense	8,149	2,850
NET INTEREST INCOME	21,805	19,308
Provision for credit losses	530	113
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	21,275	19,195
NONINTEREST INCOME		
Bank card and credit card interchange fees	491	487
Service charges on deposit accounts	270	266
Life insurance income	513	189
Other noninterest income	115	118
Total noninterest income	1,389	1,060
NONINTEREST EXPENSES		
Salaries and employee benefits	6,963	5,340
Occupancy and equipment	1,110	854
Other noninterest expenses	4,376	3,925
Total noninterest expenses	12,449	10,119
Income before provision for income taxes	10,215	10,136
Provision for income taxes	2,844	2,893
NET INCOME	$ 7,371	$ 7,243
NET INCOME PER SHARE	$ 4.98	$ 4.92
NET INCOME PER SHARE – ASSUMING DILUTION	$ 4.84	$ 4.74

The accompanying notes are an integral part of these financial statements.

CORNERSTONE COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
NET INCOME	$ 7,371	$ 7,243
Available for sale securities:		
Unrealized gains (losses) arising during the period	3,506	(15,844)
Income tax (expense) benefit related to unrealized gains (losses)	(1,036)	4,684
Net change in unrealized gains (losses) for available for sale securities	2,470	(11,160)
Total other comprehensive income (loss), net of tax	2,470	(11,160)
COMPREHENSIVE INCOME (LOSS)	$ 9,841	$ (3,917)

The accompanying notes are an integral part of these financial statements.

CORNERSTONE COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022
(in thousands, except share amounts)

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income	Total
BALANCE AT JANUARY 1, 2022	1,462,591	$ 14,913	$ 23,052	$ (945)	$ 37,020
Stock options exercised	22,271	212	—	—	212
Stock option expense	—	88	—	—	88
Repurchase of common stock	(5,000)	(138)	—	—	(138)
Net income	—	—	7,243	—	7,243
Other comprehensive income (loss), net of taxes	—	—	—	(11,160)	(11,160)
BALANCE AT DECEMBER 31, 2022	1,479,862	15,075	30,295	(12,105)	33,265
Stock options exercised	610	5	—	—	5
Stock options repurchased	—	(37)	—	—	(37)
Stock option expense	—	120	—	—	120
Cumulative effect of adoption of ASC 326 on retained earnings	—	—	(27)	—	(27)
Net income	—	—	7,371	—	7,371
Other comprehensive income (loss), net of taxes	—	—	—	2,470	2,470
BALANCE AT DECEMBER 31, 2023	1,480,472	$ 15,163	$ 37,639	$ (9,635)	$ 43,167

The accompanying notes are an integral part of these financial statements.

CORNERSTONE COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
OPERATING ACTIVITIES		
Net income	$ 7,371	$ 7,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	631	613
Stock option expense	120	88
Amortization and accretion of investment securities	555	662
Change in loan servicing rights	28	31
Provision for credit losses	530	113
Earnings on life insurance policies	(512)	(189)
Net change in accrued interest receivable and other assets	(1,168)	(1,210)
Net change in accrued interest payable and other liabilities	800	622
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,355	7,973
INVESTING ACTIVITIES		
Loans originations and payments, net	(61,801)	(33,054)
Maturities and principal repayments of investment securities available for sale	4,321	8,086
Purchases of investment securities available for sale		(10,773)
Purchases of premises and equipment	(315)	(392)
Purchase of life insurance policies	(2,805)	(5,235)
Purchase of restricted equity securities	(85)	(433)
NET CASH USED BY INVESTING ACTIVITIES	(60,685)	(41,801)
FINANCING ACTIVITIES		
Net change in deposits	29,716	(12,889)
Net change in other borrowings	20,000	(5,000)
Proceeds from exercise of stock options	5	212
Stock options repurchased	(37)	—
Common stock repurchased and retired	—	(138)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	49,684	(17,815)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,646)	(51,643)
Cash and cash equivalents at beginning of year	30,963	82,606
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 28,317	$ 30,963
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 7,652	$ 2,537
Income taxes	$ 3,031	$ 2,721
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Net change in unrealized (losses) gains on investment securities	$ 3,506	$ (15,844)
Net change in deferred income taxes on unrealized gains and losses on investment securities	$ (1,036)	$ 4,684
Right-of-use lease assets obtained in exchange for lessee operating lease liabilities	—	$ 513
Cumulative effect of adoption of ASC 326 on retained earnings, net of tax	$ (27)	—

The accompanying notes are an integral part of these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Cornerstone Community Bancorp (the Company) was incorporated on May 30, 2014, as a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Cornerstone Community Bank (the Bank). The Company completed a reorganization on January 30, 2015 that resulted in each share of outstanding Bank common stock being converted into one share of Company common stock and the Bank being merged into the Company. The Bank was incorporated on July 26, 2006, received authorization to organize the Bank in July 2006 and commenced operations on October 23, 2006. The Bank is subject to regulation, supervision, and regular examination by the California Department of Financial Protection and Innovation (DFPI) and the Federal Reserve Bank (FRB). The regulations of these agencies govern most aspects of the Bank's business.

The financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America and standard practices within the banking industry. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles (GAAP)*, establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. The following is a summary of the significant accounting and reporting policies used in preparing these financial statements.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for credit losses is the most significant accounting estimate reflected in the Company's consolidated financial statements.

Segment and Significant Group Concentration of Credit Risk

The Company provides commercial, industrial, agricultural and personal credit and other banking services in Shasta and Tehama Counties and surrounding areas through its branch offices located in Red Bluff, Redding and Anderson, California. The Company has a diversified loan portfolio within the business segments located in this geographical area. The Company currently classifies all its operations into one business segment that it denotes as community banking.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest bearing deposits in other financial institutions and federal funds sold. Net cash flows are reported for loan and deposit transactions and other borrowings. Interest bearing deposits in other financial institutions included in cash and cash equivalents are those deposits with an original maturity of less than 90 days.

Available for Sale Debt Securities

Available for sale debt securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale securities are reported as a separate component of accumulated other comprehensive income in shareholders' equity until realized. Discounts are amortized or accreted over the expected life of the related investment security as an adjustment to yield using the effective interest method. Premiums on callable debt securities are generally

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

amortized to the earliest call date of the security with the exception of mortgage backed securities, where estimated prepayments, if any, are considered. Dividend and interest income are recognized when earned. Realized gains and losses are derived from the amortized cost of the security sold.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest separately in the consolidated balance sheets. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2023 and 2022.

The Company evaluates available for sale debt securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available for sale debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. In evaluating available for sale debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit losses when management believes an available for sale debt security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. No security credit losses were recognized during the years ended December 31, 2023 or 2022.

Restricted Equity Securities

Restricted equity securities represent the Company's investment in the stock of the Federal Home Loan Bank of San Francisco (FHLB) and the FRB and are carried at par value, which reasonably approximates its fair value. While technically these are considered equity securities, there is no market for the FHLB and FRB stock. Therefore, the shares are considered restricted investment securities. Management periodically evaluates FHLB and FRB stock for other-than-temporary impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. Both cash and stock dividends are reported as income when received.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of deferred loan fees and costs. Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized as an adjustment to the related loan's yield over the actual life of the loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

Loans are placed in nonaccrual status when reasonable doubt exists as to the full, timely collection of interest or principal, or a loan becomes contractually past due by 90 days or more with respect to interest or principal and is not well secured and in the process of collection. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is considered probable. Interest accruals are resumed on such loans only

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Accrued interest receivable is not included in the calculation of the allowance for credit losses.

Allowance for Credit Losses – Loans

The Company measures credit losses under ASU 2016-03 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology, and is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized costs, including loan receivables and held-to-maturity debt securities.

The allowance for credit losses (ACL) is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the recorded loan balance is confirmed as uncollectible. Regardless of the determination that a charge-off is appropriate for financial accounting purposes, the Company manages its loan portfolio by continually monitoring, where possible, a borrower's ability to pay through the collection of financial information, delinquency status, borrower discussion and the encouragement to repay in accordance with the original contract or modified terms, if appropriate.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using an average charge-off methodology:

Real Estate – Commercial: The real estate – commercial portfolio segment consists of both owner-occupied and non-owner-occupied credits. The owner-occupied credits are primarily susceptible to changes in the financial condition of the business operated by the property owner. This may be driven by changes in, among other things, industry challenges, factors unique to the operating geography of the borrower, change in the individual fortunes of the business owner, general economic conditions and changes in business cycles. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven more by general economic conditions, the underlying collateral may have devalued more and thus result in larger losses in the event of default. The terms on these loans at origination typically have maturities from five to twenty-five years with amortization periods of twenty-five years.

The non-owner-occupied credits typically consist of buildings which are leased to others for their use and rely on rents as the primary source of repayment. Property types are predominantly office, retail, or light industrial but the portfolio also has some special use properties. As such, the risk of loss associated with these properties is primarily driven by general economic changes or changes in regional economies and the impact of such on a tenant's ability to pay. Ultimately this can affect occupancy, rental rates, or both. Additional risk of loss can come from new construction resulting in oversupply, the costs to hold or operate the property, or changes in interest rates. The terms on these loans at origination typically have maturities from five to twenty-five years with amortization periods of twenty-five years.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate – Multifamily: These commercial properties are generally comprised of more than four rentable units, such as apartment buildings, with each unit intended to be occupied as the primary residence for one or more persons. Multifamily properties are also subject to changes in general or regional economic conditions, such as unemployment, ultimately resulting in increased vacancy rates or reduced rents or both. In addition, new construction can create an oversupply condition and market competition resulting in increased vacancy, reduced market rents, or both. Due to the nature of their use and the greater likelihood of tenant turnover, the management of these properties is more intensive and therefore is more critical to the preclusion of loss.

Real Estate – Residential: The real estate – residential portfolio segment consists of 1-4 family residential first lien loans and 1-4 family residential loans extended under home equity lines of credit and junior liens. The most significant drivers of potential loss within the 1-4 family residential first lien portfolio segment are general, regional or individual changes in economic conditions and their effect on employment and borrowers cash flow. Risk in this portfolio is best measured by changes in borrower credit scores and loan-to-values. Loss estimates are based on the general movement in credit scores, economic outlook and its effects on employment and the value of homes and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

Performance on the 1-4 family residential loans extended under home equity lines of credit and junior liens is primarily driven by borrower cash flows based on employment status. However, home equity lines of credit carry additional risks associated with the fact that most of these loans are secured by a deed of trust in a position that is junior to the primary lien holder. Furthermore, the risk that as the borrower's financial strength deteriorates, the outstanding balance on these credit lines may increase as they may only be canceled by the Company if certain limited criteria are met. In addition to the allowance for credit losses maintained as a percent of the outstanding loan balance, the Company maintains additional reserves for the unfunded portion of the home equity line of credit.

Real Estate – Construction: While secured by real estate, construction loans represent a greater level of risk than term real estate loans due to the nature of the additional risks associated with not only the completion of construction within an estimated time period and budget, but also the need to either sell the building or reach a level of stabilized occupancy sufficient to generate the cash flows necessary to support debt service and operating costs. The Company seeks to mitigate the additional risks associated with construction lending by requiring borrowers to comply with lower loan to value ratios and additional covenants as well as strong tertiary support of guarantors.

Real Estate – Farmland: Loans secured by farmland represent unique risks that are associated with the operation of an agricultural business. The valuation of farmland can vary greatly over time based on the property's access to resources including, but not limited to, water, crop prices, foreign exchange rates, government regulation or restrictions, and the nature of ongoing capital investment needed to maintain the quality of the property. Loans secured by farmland typically represent less risk to the Company than other agriculture loans as the real estate typically provides greater support in the event of default or need for longer term repayment.

Commercial and Industrial: Repayment of these loans is primarily based on the cash flow of the borrower, and secondarily on the underlying collateral provided by the borrower. A borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Most often, collateral includes accounts receivable, inventory, or equipment. Collateral securing these loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. Actual and forecast changes in gross domestic product are believed to be corollary to losses associated with these credits.

Agriculture Production: Repayment of agricultural loans is dependent upon successful operation of the agricultural business, which is greatly impacted by factors outside the control of the borrower. These factors include adverse weather conditions, including access to water, that may impact crop yields, loss of livestock due to disease or other factors, declines in market prices for agriculture products, changes in foreign exchange and the impact of government regulations. In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the business. Consequently, agricultural production loans may involve a greater degree of risk than other types of loans.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consumer: These loans are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value, if any. Typically, non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of those factors. Loss estimates are based on the general movement in credit score, economic outlook and its effects on employment and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to credit loss expense in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in accrued interest payable and other liabilities on the Company's consolidated balance sheets.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is computed principally by the straight-line method over the estimated useful lives of the related assets, which range from three to forty years.

Leases

The Company enters into leases in the normal course of business. The Company also owns certain office facilities which it leases to an outside party. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. Generally, the Company cannot be reasonably certain about whether or not it will renew a lease until such time the lease is within the last two years of the existing lease term. When the Company is reasonably certain that a renewal option will be exercised, it measures/remeasures the right-of-use asset and related lease liability using the lease payments specified for the renewal period or, if such amounts are unspecified, the Company generally assumes an increase (evaluated on a case-by-case basis in light of prevailing market conditions) in the lease payment over the final period of the existing lease term.

The Company has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the consolidated balance sheet. Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right of use assets represent the Company's right to use an underlying asset for the lease term and are included

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in accrued interest receivable and other assets on the consolidated balance sheet. Lease liabilities represent the Company's obligation to make lease payments arising from the lease and are included in accrued interest payable and other liabilities on the consolidated balance sheet. Right of use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term, discounted using the Company's incremental borrowing rate.

Cash Surrender Value of Life Insurance

The Company maintains life insurance policies on certain key executives. Life insurance is recorded at the amounts that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The Company also maintains split dollar life insurance agreements with certain employees, whereby the employees' designated beneficiaries will receive a portion of life insurance benefits upon the employees' death while employed by the Company. As the benefits do not extend beyond employment, a liability has not been recorded by the Company.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Foreclosed Real Estate

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the Company has taken physical possession, regardless of whether formal foreclosure proceedings have taken place. At the time of foreclosure, foreclosed real estate is recorded at fair value less cost to sell, which becomes the property's new cost basis. Any write-downs in value, at the acquisition date, are recorded against the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value minus estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Long-Term Assets

Premises, equipment, and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are adjusted to reflect their fair value.

Transfers of Financial Assets

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

Included in the loan portfolio are loans guaranteed by the Small Business Administration (SBA) and the United States Department of Agriculture (USDA). The guaranteed portion of these loans may be sold in the secondary market in exchange for a one-time premium. At the time the guaranteed portion of the loan is sold, the unguaranteed portion and related right to service the entire loan is retained with the Company to earn future servicing income.

Servicing rights acquired through the origination of loans, which are subsequently sold with servicing rights retained, are recognized as separate assets or liabilities. Servicing assets and liabilities are initially recorded at fair value and are subsequently amortized in proportion to, and over the period of, the related net servicing income or expense. The amortized assets are assessed for impairment or increased obligations at the loan level, based on the fair value on a periodic basis.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the Company satisfies a performance obligation.

Most of the Company's revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans and other investments. In addition, certain noninterest income streams are also not in the scope of the guidance. The Company fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed and charged on a periodic basis or based on activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The contracts evaluated that are within scope of Topic 606 are primarily related to service charges and fees on deposit accounts, debit and ATM interchange fees and merchant fee income.

Income Taxes

Provisions for income taxes are based on amounts reported in the statements of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and include deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred taxes are computed using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. 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. Deferred tax assets are recognized for deductible temporary differences and tax credit carryforwards, and then a valuation allowance is established to reduce that deferred tax asset if it is "more likely than not" that the related tax benefits may not be realized.

Net Income Per Share of Common Stock

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Net income per share – assuming dilution is computed similar to net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Included in the denominator is the dilutive effect of stock options computed under the treasury stock method.

Stock Option Accounting

The Company has a stock-based employee compensation plan, which is described more fully in Note P. The Company applies the fair value recognition provisions of FASB ASC 718, *Accounting for Stock-Based Compensation.* Stock-based employee compensation expense was included in the determination of net income for all awards granted since the Company's inception. Awards under the Company's plan generally vest over five years.

Advertising

Advertising costs are charged to operations in the year incurred.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 29, 2024, which is the date the financial statements were available to be issued.

(table amounts in thousands, except share and per share amounts)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts reported in previous consolidated financial statements have been reclassified and recalculated to conform to the presentation in this report. These reclassifications did not affect previously reported amounts of net income, total assets or total shareholders' equity.

NOTE B – RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Standards Adopted in 2023

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

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

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $128,000, which is presented as a reduction to net loans outstanding, and a decrease in the allowance for credit losses on unfunded loan commitments of $90,000, which is recorded within accrued interest payable and other liabilities. The Company recorded a net decrease to retained earnings of $27,000 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326.

	January 1, 2023		
	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	Post-ASC 326 Adoption
Assets:			
Allowance for Credit Losses - Loans	$ (5,159)	$ (128)	$ (5,287)
Deferred Tax Asset (Accrued interest receivable and other assets)	7,149	11	7,160
Liabilities:			
Allowance for Credit Losses - Unfunded Commitments (Accrued interest payable and other liabilities)	(229)	90	(139)
Shareholders' Equity:			
Retained Earnings	(30,295)	27	(30,268)

NOTE B – RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* The amendments in this Update eliminated the TDR recognition and measurement guidance and, instead, required that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhanced existing disclosure requirements and introduced new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Furthermore, the amendments in this Update required that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. The Company adopted these amendments on January 1, 2023 and has observed no significant impact on the consolidated financial statements.

Accounting Standards Pending Adoption

FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures.* This ASU was issued to enhance the transparency and decision usefulness of income tax disclosures, primarily related to the rate reconciliation and income taxes paid information. This ASU is effective for fiscal years beginning after December 15, 2024. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statements but will result in the expansion of the income tax disclosures.

FASB issued ASU 2023-07, *Segment Reporting: Improvements to Reportable Segment Disclosures.* This ASU was issued to address stakeholder requests for more detailed information about expenses within each reportable segment and address disclosure requirements there within. The amendments retain existing disclosure requirements, and expand upon them for both interim and annual reporting periods. In addition, entities with a single reportable segment must now provide all segment disclosures required, including the new disclosure requirements. This ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statements but will result in inclusion of certain segment reporting requirements not previously required.

FASB issued ASU 2023-06, *Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative.* This ASU was issued to incorporate 14 of the 27 simplification disclosures released by the SEC which overlapped with existing, but required incremental information to, GAAP to the FASB for incorporation into the Codification. The timing of these amendments will coincide with the effective dates of changes by the SEC in Regulations S-X or S-K. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statements.

(table amounts in thousands, except share and per share amounts)

NOTE C – INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Securities available-for-sale				
U.S. agency securities - excluding mortgage-backed securities	$ 7,239	$ —	$ (1,096)	$ 6,143
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	678	—	(40)	638
Government agency collateralized mortgage obligation	17,818	—	(1,529)	16,289
Private-label collateralized mortgage obligation	1,495	—	(49)	1,446
Commercial mortgage-backed securities:		—		
Government agency mortgage-backed securities	1,022	—	(182)	840
Private-label collateralized mortgage obligation	6,070	—	(239)	5,831
Municipal bonds:				
Tax-exempt	9,613	—	(1,039)	8,574
Taxable	51,825	1	(9,139)	42,687
Asset backed securities:		—		
Government sponsored student loan pools	8,900	—	(205)	8,695
Corporate debt securities	2,084	—	(162)	1,922
	$ 106,744	$ 1	$ (13,680)	$ 93,065
December 31, 2022				
Securities available-for-sale				
U.S. agency securities - excluding mortgage-backed securities	$ 7,807	$ —	$ (1,245)	$ 6,562
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	826	—	(60)	766
Government agency collateralized mortgage obligation	18,720	—	(1,675)	17,045
Private-label collateralized mortgage obligation	2,555	—	(105)	2,450
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	1,029	—	(204)	825
Private-label collateralized mortgage obligation	6,196	—	(333)	5,863
Municipal bonds:				
Tax-exempt	9,706	—	(1,418)	8,288
Taxable	52,056	—	(11,456)	40,600
Asset backed securities:				
Government sponsored student loan pools	10,601	—	(449)	10,152
Corporate debt securities	2,124	—	(240)	1,884
	$ 111,620	$ —	$ (17,185)	$ 94,435

(table amounts in thousands, except share and per share amounts)

NOTE C – INVESTMENT SECURITIES (Continued)

There was no allowance for credit losses recorded for the securities available for sale as of December 31, 2023. There were no sales of investment securities during the years ended 2023 and 2022.

The contractual maturities of investment securities at December 31 were as follows:

	2023		2022	
	Securities Available-for-Sale		Securities Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 1,142	$ 1,142	$ 4	$ 4
Due from one year to five years	25,203	23,478	34,013	31,962
Due from five years to ten years	58,423	51,251	49,543	41,190
Due after ten years	21,976	17,194	28,060	21,279
	$ 106,744	$ 93,065	$ 111,620	$ 94,435

The amortized cost and fair value of investment securities are presented by contractual maturity in the preceding table. Contractual maturities will differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations without call or prepayment penalties.

Pledged securities consisted of the following at December 31:

	2023		2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged to the Federal Reserve Bank	$ 106,744	$ 93,065	$ 150	$ 141
Pledged to the Federal Home Loan Bank	—	—	4	4
	$ 106,744	$ 93,065	$ 154	$ 145

At December 31, 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S, Government and its agencies, in an amount greater than 10% of shareholders' equity.

(table amounts in thousands, except share and per share amounts)

NOTE C – INVESTMENT SECURITIES (Continued)

The following table presents the gross unrealized losses and fair value of available for sale securities for which an allowance for credit loss has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023:

	2023					
	Less than 12 months		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. agency securities - excluding mortgage-backed securities	$ —	$ —	$ 6,143	$ (1,096)	$ 6,143	$ (1,096)
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	—	—	638	(40)	638	(40)
Government agency collateralized mortgage obligation	—	—	16,289	(1,529)	16,289	(1,529)
Private-label collateralized mortgage obligation	—	—	1,446	(49)	1,446	(49)
Commercial mortgage-backed securities:						
Government agency mortgage-backed securities	—	—	840	(182)	840	(182)
Private-label collateralized mortgage obligation	—	—	5,831	(239)	5,831	(239)
Municipal bonds:						
Tax-exempt	—	—	8,574	(1,039)	8,574	(1,039)
Taxable	—	—	41,544	(9,139)	41,544	(9,139)
Asset backed securities:						
Government sponsored student loan pools	—	—	8,695	(205)	8,695	(205)
Corporate debt securities	—	—	1,922	(162)	1,922	(162)
	$ —	$ —	$ 91,922	$ (13,680)	$ 91,922	$ (13,680)

Unrealized losses on U.S. agency securities – excluding mortgage-backed securities have not been recognized into income because the securities are of high credit quality, the issuers are U.S. government-sponsored entities, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. At December 31, 2023, 3 debt securities representing this investment category had unrealized losses with aggregate depreciation of 15.14% from the amortized cost basis.

Unrealized losses on government agency residential and commercial mortgage-backed securities have not been recognized into income because the securities are of high credit quality, the issuers are U.S. government-sponsored entities, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. At December 31, 2023, 19 debt securities representing this investment category had unrealized losses with aggregate depreciation of 8.97% from the amortized cost basis.

Unrealized losses on private-label residential and commercial mortgage-backed securities have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. Management monitors these securities for changes in credit ratings or other indications of credit deterioration. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. At December 31, 2023, 5 debt securities representing this investment category had unrealized losses with aggregate depreciation of 3.81% from the amortized cost basis.

Unrealized losses on municipal bonds have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other

(table amounts in thousands, except share and per share amounts)

NOTE C – INVESTMENT SECURITIES (Continued)

market conditions. Management monitors these securities for changes in credit ratings or other indications of credit deterioration. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. At December 31, 2023, 50 debt securities representing this investment category had unrealized losses with aggregate depreciation of 16.88% from the amortized cost basis.

Unrealized losses on asset backed securities have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. Management monitors these securities for changes in credit ratings or other indications of credit deterioration. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. At December 31, 2023, 8 debt securities representing this investment category had unrealized losses with aggregate depreciation of 2.30% from the amortized cost basis.

Unrealized losses on corporate debt securities have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. Management monitors these securities for changes in credit ratings or other indications of credit deterioration. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity. At December 31, 2023, 2 debt securities representing this investment category had unrealized losses with aggregate depreciation of 7.79% from the amortized cost basis.

The following table presents the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022:

	2022					
	Less than 12 months		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. agency securities - excluding mortgage-backed securities	$ 1,367	$ (220)	$ 5,195	$ (1,025)	$ 6,562	$ (1,245)
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	486	(20)	280	(40)	766	(60)
Government agency collateralized mortgage obligation	—	—	17,045	(1,675)	17,045	(1,675)
Private-label collateralized mortgage obligation	2,450	(105)	—	—	2,450	(105)
Commercial mortgage-backed securities:						
Government agency mortgage-backed securities	—	—	825	(204)	825	(204)
Private-label collateralized mortgage obligation	5,863	(333)	—	—	5,863	(333)
Municipal bonds:						
Tax-exempt	—	—	8,288	(1,418)	8,288	(1,418)
Taxable	—	—	40,600	(11,456)	40,600	(11,456)
Asset backed securities:						
Government sponsored student loan pools	—	—	10,152	(449)	10,152	(449)
Corporate debt securities	—	—	1,884	(240)	1,884	(240)
	$ 10,166	$ (678)	$ 84,269	$ (16,507)	$ 94,435	$ (17,185)

(table amounts in thousands, except share and per share amounts)

NOTE D – LOANS

Major classifications of loans at December 31 are summarized as follows:

	2023	2022
Real estate – commercial	$ 232,859	$ 213,009
Real estate – multifamily	34,237	35,546
Real estate – residential	32,034	32,736
Real estate – construction	24,666	23,136
Real estate – farmland	19,882	10,189
Commercial and industrial	107,939	89,625
Agriculture production	21,116	8,242
Consumer	9,479	7,933
Loans, net of deferred fees and costs	482,212	420,415
Allowance for credit losses	(5,813)	(5,159)
Total loans, net	$ 476,399	$ 415,256

As of December 31, 2023 and 2022, loans totaling $427.0 million and $389.2 million, respectively, were pledged to secure borrowings and available lines of credit.

Loans are reported at the principal amount outstanding, net of unearned interest and deferred fees and costs, and any partial charge-offs recorded. As of December 31, 2023 and 2022, the net deferred fees and costs were $275,000 and $239,000, respectively.

Loans include investments in subordinated debt issued by other financial institutions of $10.7 million at December 31, 2023 and 2022.

NOTE E – ALLOWANCE FOR CREDIT LOSSES - LOANS

The following table discloses activity in the allowance for credit losses - loans for the year ended December 31, 2023.

	Beginning Balance	Impact of Adopting ASC 326	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
Real estate – commercial	$ 2,290	$ 109	$ —	$ —	$ 247	$ 2,646
Real estate – multifamily	165	8	—	—	(33)	140
Real estate – residential	340	16	—	—	(8)	348
Real estate – construction	395	19	—	—	(136)	278
Real estate – farmland	270	13	—	—	132	415
Commercial and industrial	1,322	64	(4)	—	160	1,542
Agriculture production	102	5	—	—	158	265
Consumer	161	8	—	—	10	179
Unallocated	114	(114)	—	—	—	—
Total	$ 5,159	$ 128	$ (4)	$ —	$ 530	$ 5,813

(table amounts in thousands, except share and per share amounts)

NOTE E – ALLOWANCE FOR CREDIT LOSSES - LOANS (Continued)

The following table discloses activity in the allowance for credit losses – loans for the year ended December 31, 2022.

	Beginning Balance	Charge-offs	Recoveries	Provision (Recapture)	Ending Balance
Real estate – commercial	$ 2,707	$ —	$ —	$ (417)	$ 2,290
Real estate – multifamily	430	—	—	(265)	165
Real estate – residential	276	—	—	64	340
Real estate – construction	187	—	—	208	395
Real estate – farmland	64	—	—	206	270
Commercial and industrial	786	—	—	536	1,322
Agriculture production	6	—	—	96	102
Consumer	13	(13)	—	161	161
Unallocated	590	—	—	(476)	114
Total	$ 5,059	$ (13)	$ —	$ 113	$ 5,159

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the Company’s loan portfolio, management tracks certain credit quality indicators including, but not limited to, trends relating to (i) the level of criticized and classified loans, (ii) net charge-offs, (iii) non-performing loans, and (iv) delinquency within the portfolio. The Company analyzes loans individually to classify the loans as to credit risk and grading.

Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information, sales invoices or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically once repayment is questionable and the loan has been classified.

The Company utilizes a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale ranging from Pass to Loss. A description of the general characteristics of the risk grades is as follows:

- *Pass/Watch* – This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards in regard to: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.
- *Special Mention* – This grade includes loans that display some potential weaknesses which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Company’s position in the future. These loans warrant more than normal supervision and attention.
- *Substandard* – Loans within this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is, however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Company from loss of principal and accrued interest, or the loan has been written down to the point where this is true. There is a definite need for a well-defined workout/rehabilitation program.
- *Doubtful* – An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and financing plans.
- *Loss* – A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future.

(table amounts in thousands, except share and per share amounts)

NOTE E – ALLOWANCE FOR CREDIT LOSSES - LOANS (Continued)

The amortized cost basis of the Company's loans by origination year, where origination is defined as the later of origination or renewal date, and credit quality indicator as of December 31, 2023 was as follows (disclosure not comparative due to adoption of ASC 326 on January 1, 2023):

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	Prior			Total
Real estate - commercial								
Pass	$ 24,544	$ 19,705	$ 45,241	$ 27,024	$ 64,881	$ 8,683	$ 40,928	$ 231,005
Special mention	—	1,061	418	375	—	—	—	1,854
Total real estate - commercial	$ 24,544	$ 20,767	$ 45,658	$ 27,399	$ 64,881	$ 8,683	$ 40,928	$ 232,859
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - multifamily								
Pass	$ 1,968	$ 1,761	$ 4,460	$ 4,885	$ 17,619	$ 1,560	$ 1,983	$ 34,237
Total real estate - multifamily	$ 1,968	$ 1,761	$ 4,460	$ 4,885	$ 17,619	$ 1,560	$ 1,983	$ 34,237
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - residential								
Pass	$ 780	$ 8,998	$ 4,593	$ 616	$ 6,047	$ 10,424	$ 576	$ 32,034
Total real estate - residential	$ 780	$ 8,998	$ 4,593	$ 616	$ 6,047	$ 10,424	$ 576	$ 32,034
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - construction								
Pass	$ —	$ 606	$ 535	$ —	$ —	$ 18,696	$ 4,747	$ 24,584
Special mention	—	—	82	—	—	—	—	82
Total real estate - construction	$ —	$ 606	$ 617	$ —	$ —	$ 18,696	$ 4,747	$ 24,666
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - farmland								
Pass	$ 10,210	$ 4,379	$ 3,863	$ —	$ 508	$ 23	$ 898	$ 19,882
Total real estate - farmland	$ 10,210	$ 4,379	$ 3,863	$ —	$ 508	$ 23	$ 898	$ 19,882
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial								
Pass	$ 15,327	$ 31,121	$ 8,657	$ 12,614	$ 3,321	$ 27,603	$ 8,749	$ 107,392
Special mention	—	—	—	47	—	—	—	47
Substandard	—	—	—	—	—	—	500	500
Total commercial	$ 15,327	$ 31,121	$ 8,657	$ 12,661	$ 3,321	$ 27,603	$ 9,249	$ 107,939
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ 4	$ —	$ —	$ 4
Agriculture production								
Pass	$ 981	$ 635	$ 357	$ —	$ —	$ 18,819	$ 324	$ 21,116
Total agriculture production	$ 981	$ 635	$ 357	$ —	$ —	$ 18,819	$ 324	$ 21,116
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer								
Pass	$ 3,423	$ 5,616	$ 8	$ 30	$ 14	$ 343	$ 45	$ 9,479
Total consumer	$ 3,423	$ 5,616	$ 8	$ 30	$ 14	$ 343	$ 45	$ 9,479
Current YTD period:								
Gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Less:								
Allowance for credit losses								(5,813)
Loans, net								$ 476,399

(table amounts in thousands, except share and per share amounts)

NOTE E – ALLOWANCE FOR CREDIT LOSSES - LOANS (Continued)

Management regularly reviews the Company's loans for accuracy of risk grades whenever new information is received. Borrowers are generally required to submit financial information at regular intervals. Typically, commercial borrowers with lines of credit are required to submit financial information with reporting intervals ranging from monthly to annually depending on credit size, risk and complexity. In addition, investor commercial real estate borrowers with loans exceeding a certain dollar threshold are usually required to submit rent rolls or property income statements annually. Management monitors construction loans monthly and reviews consumer loans based on delinquency. Management also reviews loans graded "watch" or worse, regardless of loan type, no less than quarterly.

Delinquency

The following table presents the aging of the amortized cost basis in past-due loans as of December 31, 2023 and 2022 by class of loans:

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate - commercial	$ 1,061	$ 375	$ —	$ 1,436	$ 231,423	$ 232,859
Real estate - multifamily	—	—	—	—	34,237	34,237
Real estate - residential	—	—	—	—	32,034	32,034
Real estate - construction	82	—	—	82	24,584	24,666
Real estate - farmland	—	—	—	—	19,882	19,882
Commercial and industrial	—	—	—	—	107,939	107,939
Agriculture production	—	—	—	—	21,116	21,116
Consumer	—	—	—	—	9,479	9,479
Total	$ 1,144	$ 375	$ —	$ 1,519	$ 480,694	$ 482,212

There were no loans greater than 90 days past due and still accruing interest income as of December 31, 2023.

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate - commercial	$ —	$ —	$ —	$ —	$ 213,009	$ 213,009
Real estate - multifamily	—	—	—	—	35,546	35,546
Real estate - residential	—	—	—	—	32,736	32,736
Real estate - construction	—	—	—	—	23,136	23,136
Real estate - farmland	—	—	—	—	10,189	10,189
Commercial and industrial	58	—	—	58	89,567	89,625
Agriculture production	—	—	—	—	8,242	8,242
Consumer	—	—	—	—	7,933	7,933
Total	$ 58	$ —	$ —	$ —	$ 420,357	$ 420,415

There were no loans greater than 90 days past due and still accruing interest income as of December 31, 2022.

Non-accrual

The Company had no non-accrual loans at December 31, 2023 and 2022.

(table amounts in thousands, except share and per share amounts)

NOTE E – ALLOWANCE FOR CREDIT LOSSES - LOANS (Continued)

Collateral Dependent Loans

The Company designates individually evaluated loans on nonaccrual status as collateral-dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral-dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

There were no collateral dependent loans at December 31, 2023.

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

In January 2023, the Company adopted ASU 2022-02, which eliminated the accounting guidance for troubled debt restructurings while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, the Company no longer establishes a reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan portfolio segments and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance. Loans associated with borrowers experiencing financial difficulty can be classified as either accrual or nonaccrual loans.

Modifications to borrowers in financial difficulty may include term extensions, interest rate reductions, principal or interest forgiveness or any other-than-insignificant payment delay. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The Company had no loans as of December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023.

Troubled Debt Restructurings

Prior to the adoption of ASU 2022-02, loans were accounted for as TDRs if concessions were granted in response to borrower financial difficulties. These concessions generally provided for a temporary modification of loan repayment terms.

At December 31, 2022, the Company had no loans to borrowers whose loan terms were modified in troubled debt restructurings.

Allowance for Credit Losses - Unfunded Commitments

The allowance for credit losses - unfunded commitments is included in accrued interest payable and other liabilities in the consolidated balance sheets. Provisions for unfunded commitments are included in provision for credit losses in the consolidated statements of income. Prior to adoption of ASC 326, provisions for unfunded commitments were included in other operating expenses in the consolidated statements of income.

	Years Ended December 31,	
	2023	2022
Beginning balance	$ 229	$ 229
Impact of Adopting ASC 326	(90)	—
Ending balance	$ 139	$ 229

(table amounts in thousands, except share and per share amounts)

NOTE F – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2023	2022
Land	$ 1,282	$ 1,282
Land Improvements	263	262
Buildings	13,291	13,291
Leasehold improvements	67	67
Furniture, fixtures and equipment	1,990	1,915
Automobiles	218	95
Construction in progress	61	—
	17,172	16,912
Less: Accumulated depreciation	(2,846)	(2,310)
	$ 14,326	$ 14,602

Depreciation and amortization of premises and equipment included in occupancy and equipment expense totaled $591,000 and $574,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE G – LEASES

In 2022, the Company entered into a lease agreement for an office facility under an operating lease. The lease contains options to extend the lease for two 60 month periods beginning July 1, 2027 subject to 3% rental increases during the first option period and at the fair market rental value of the property during the second option period. Rental payments increase June 1 each year based on the Consumer Price Index. Rent expense for the operating lease totaled $114,000 and $55,000 for the years ended December 31, 2023 and December 31, 2022, respectively.

Right-of-use lease assets totaled $368,000 and $466,000 at December 31, 2023 and 2022, respectively. The right-of-use lease assets are reported as a component of accrued interest receivable and other assets in the accompanying consolidated balance sheet. The related lease liability totaled $368,000 and $466,000 at December 31, 2023 and 2022, respectively. The related lease liability is reported as a component of accrued interest payable and other liabilities in the accompanying consolidated balance sheet. Lease payments under operating leases that were applied to the operating lease liability totaled $111,000 and $55,000 during 2023 and 2022, respectively. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lessee lease liability as of December 31:

	2023	2022
Future Lease Payments		
2023	$ —	$ 111
2024	111	111
2025	111	111
2026	111	111
2027	55	55
Thereafter	—	—
Total undiscounted operating lease liability	388	499
Imputed interest	20	33
Total operating lease liability included in the accompanying balance sheet	$ 368	$ 466
Weighted-average lease term in years	3.50	4.50
Weighted-average discount rate	3.19%	3.19%

(table amounts in thousands, except share and per share amounts)

NOTE G – LEASES (Continued)

Lease Receivable: In 2021, the Company entered into an agreement to lease 7,417 square feet of office space located at the Red Bluff branch to the United States Department of Agriculture (USDA) for fixed payments of $256,000 per year for a three year "firm term," including operating costs and tenant improvement (TI) reimbursements, and an additional 17 years at $185,000 per year that excludes the reimbursement for tenant improvements. The building improvements specified in the agreement were completed as of December 31, 2021. The lease term began on April 26, 2021, upon the USDA's occupancy of the space. The lease is cancellable after the three year "firm term" with advance written notice of 120 days. There are no options to extend the lease period.

At December 31, 2023 and 2022, the total cost and carrying amount of the leased portion of the Red Bluff building under the USDA lease was $1.8 million and $1.7 million, respectively. The Company recognized lease income of $196,000 during 2023 and 2022. The Company deferred and amortized tenant improvement rents payable during the first three years of the agreement over the life of the lease. Deferred rents were $171,000 and $111,000 at December 31, 2023 and 2022, respectively. The future cash flows to be received by the Company are as follows at December 31:

	2023	2022
2023	$ —	$ 256
2024	208	208
2025	185	185
2026	185	185
2027	185	185
2028	185	185
Thereafter	2,280	2,280
	$ 3,228	$ 3,484

NOTE H – CASH SURRENDER VALUE OF LIFE INSURANCE

The Company maintains life insurance policies on certain current and former key executives to fund the Company's employee benefit programs. Life insurance is recorded at the amounts that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value, net of surrender charges. The Company also maintains split dollar life insurance agreements with certain employees, whereby the employees' designated beneficiaries will receive a portion of life insurance benefits upon the employees' death while employed by the Company.

The death benefits provided under the specific terms of these insurance policies are estimated to be $32.5 and $27.3 million at December 31, 2023 and 2022, respectively. The cash surrender value, net of surrender charges, was $15.5 million and $12.2 million at December 31, 2023 and 2022, respectively. The cash surrender value includes both the original premiums paid for the life insurance policies and the accumulated accretion of policy income since inception of the policies, net of mortality costs and other fees. Income of $513,000 and $189,000 was recognized on these life insurance policies for the years ended December 31, 2023 and 2022, respectively.

NOTE I – INTEREST-BEARING DEPOSITS

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

	2023	2022
Savings and money market	$ 173,802	$ 181,688
Interest-bearing transaction accounts	167,302	137,755
Time deposits	122,034	88,431
	$ 463,138	$ 407,874

(table amounts in thousands, except share and per share amounts)

NOTE I – INTEREST-BEARING DEPOSITS (Continued)

Interest expense on these deposits for the years ended December 31 was as follows:

	2023	2022
Savings and money market	$ 2,955	$ 973
Interest-bearing transaction accounts	1,037	455
Time deposits	3,551	820
	$ 7,543	$ 2,248

The scheduled maturities of time deposits for the years ended December 31 were as follows:

	2023	2022
2023	$ —	$ 81,483
2024	103,126	4,897
2025	2,037	411
2026	1,310	1,480
2027	59	157
2028	15,502	3
	$ 122,034	$ 88,431

Time deposits that met or exceeded the FDIC Insurance limit of $250,000 at December 31, 2023 and 2022 were $69.8 million and $62.9 million, respectively.

The Company's deposit portfolio includes deposits offered through Reich & Tang Deposit Solutions, LLC, comprised of Demand Deposit Marketplace ("DDM") balances included in interest-bearing transaction accounts. Through this network, the Company is able to offer its customers access to FDIC-insured deposit products in aggregate amounts exceeding current insurance limits. When the Company places funds through DDM on behalf of a customer, it has the option of receiving matching deposits through the network's reciprocal deposit program. The Company considers the reciprocal deposits to be in-market deposits as distinguished from traditional out-of-market brokered deposits. The Company had $54.5 million and $14.0 million in reciprocal deposits at December 31, 2023 and 2022, respectively.

NOTE J – OTHER BORROWINGS

Federal Home Loan Bank of San Francisco (FHLB)

The Company maintains a secured credit facility with the FHLB. Amounts available under this facility are dependent on the amount of bank loans and investment securities that are pledged as collateral. There were no borrowings outstanding under this facility as of December 31, 2023 and 2022. $32.6 million was utilized under this facility for letters of credit to secure certain public fund deposit accounts as of December 31, 2023 and 2022. These letters of credit expire at various dates in 2024. As of December 31, 2023 and 2022, the collateral pledged provided additional borrowing capacity of $114.6 million and $97.6 million, respectively.

Federal Reserve

The Company has access to funding through the Federal Reserve discount window. Amounts available are dependent on the amount of bank loans and investment securities that are pledged as collateral. There were no borrowings outstanding as of December 31, 2023 and 2022. As of December 31, 2023 and 2022, the collateral pledged provided total borrowing capacity of $68.7 million and $140,000, respectively.

NOTE J – OTHER BORROWINGS (Continued)

In 2023, the Company obtained access to funding through the Federal Reserve Bank Term Funding Program. The ability to take new advances under this program ended on March 11, 2024. This program offered funding of up to one year in length and amounts available were dependent upon the par value of certain investment securities that were pledged as collateral. As of December 31, 2023, $20.0 million in borrowings were outstanding under this program. The borrowing has an interest rate of 4.83% and matures December 27, 2024. As of December 31, 2023, the collateral pledged provided additional borrowing capacity of $2.8 million.

Federal Funds

At December 31, 2023, the Company had an unsecured federal funds line of credit in the amount of $20.0 million with one of its correspondent banks through June 30, 2024. At December 31, 2022, the Company had two unsecured federal funds lines of credit totaling $24.0 million with two of its correspondent banks. The Company was required to maintain a $100,000 compensating balance in a due from bank account with the lender under one of the agreements. There were no borrowings outstanding under these agreements at December 31, 2023 and 2022.

NOTE K – SUBORDINATED DEBENTURES

On November 24, 2020, the Company completed a private placement of $12 million of subordinated notes to fifteen accredited investors through a placement agent, Performance Trust Capital Partners, LLC. Of this amount, $2 million and $3 million was contributed to the Bank in 2021 and 2020, respectively, to increase Tier 1 capital to facilitate future growth. The subordinated notes may be included in the Company's Tier 2 capital under current regulatory guidelines and interpretations. $10 million of the subordinate notes are 10-year fixed-to-floating rate notes that initially bear interest at a fixed rate of 4.75% per annum, payable quarterly in arrears on March 30, June 30, September 30, and December 30 of each year commencing March 30, 2021 until November 30, 2025. From November 30, 2025 through November 30, 2030 (or up to an earlier redemption date), the interest rate will reset quarterly to an interest rate per annum equal to the Three-Month Term Secured Overnight Financing Rate (SOFR) (or the applicable successor or substitute base rate) plus 452 basis points, payable quarterly in arrears. The notes are redeemable, in whole are in part, on November 24, 2025 or on any interest payment dates thereafter, and at any time upon the occurrence of certain events defined in the agreement. The remaining $2 million of subordinated notes are 15-year fixed-to-floating rate notes that initially bear interest at a fixed rate of 4.75% per annum, payable quarterly in arrears on March 30, June 30, September 30, and December 30 commencing March 30, 2021 until November 30, 2030. From November 30, 2030 through November 30, 2035 (or up to an earlier redemption date), the interest rate will reset quarterly to an interest rate per annum equal to the Three-Month Term SOFR (or the applicable successor or substitute base rate) plus 414 basis points, payable quarterly in arrears. The notes are redeemable, in whole or in part, on November 24, 2030 or on any interest payment dates thereafter, and at any time upon the occurrence of certain events defined in the agreement. The notes are subordinate and junior in right of payment to the prior payment in full of all existing claims of creditors of the Company and depositors of the Bank. Debt issuance costs of $284,000 were incurred on the notes, which will be amortized into interest expense through the maturity dates of the notes. Interest expense incurred on the subordinated notes, net of issuance cost amortization, was $595,000 and $594,000 during the years ended December 31, 2023 and 2022, respectively.

NOTE L – EMPLOYEE BENEFIT PLANS

The Company has a defined contribution retirement plan covering substantially all of the Company's employees. Employees may elect to have a portion of their compensation contributed to the plan in conformity with the requirements of Section 401(k) of the Internal Revenue Code. Employees may also contribute to a health savings account under Section 223 of the Internal Revenue Code. The Company makes contributions to the plans on a discretionary basis. In 2023 and 2022, the Company made contributions to the plans of $115,000 and $100,000, respectively.

(table amounts in thousands, except share and per share amounts)

NOTE L – EMPLOYEE BENEFIT PLANS (Continued)

In 2007, the Company established an unfunded retirement plan, which provides for the Company to provide the eligible officers with annual benefits for ten to fifteen years after retirement. Currently, five officers are eligible for the benefit. If death occurs prior to or during retirement, the Company will pay the officer's beneficiary or estate the benefits set forth in the plan. Liabilities are recorded for the estimated present value of future salary continuation benefits using a discount rate of 5.25%. At December 31, 2023 and 2022, the liability recorded for the executive officer supplemental retirement plan totaled $1.6 million and $1.4 million, respectively. The amount of expense related to this plan in 2023 and 2022 was $211,000 and $126,000, respectively.

NOTE M – OTHER NONINTEREST EXPENSES

Other noninterest expenses consisted of the following for the years ended December 31:

	2023	2022
Data processing	$ 1,721	$ 1,488
Advertising and marketing	421	368
Deposit insurance assessments	286	220
Consulting and advisory	218	157
Directors' fees	203	200
Accounting and auditing	198	180
Automated teller machine (ATM) and interchange expenses	133	114
Printing, stationary and supplies	97	84
Telecommunications expense	93	85
Postage	66	38
Director stock option expense	51	88
Legal fees and expenses	10	17
Other expenses	879	886
	$ 4,376	$ 3,925

NOTE N – INCOME TAXES

The components of income tax expense included in the statements of operations were as follows for the years ended December 31:

	2023	2022
Currently payable:		
Federal	$ 1,907	$ 1,767
State	1,135	1,136
	3,042	2,903
Deferred tax expense:		
Federal	(121)	53
State	(77)	(63)
	(198)	(10)
Net provision for income taxes	$ 2,844	$ 2,893

(table amounts in thousands, except share and per share amounts)

NOTE N – INCOME TAXES (Continued)

The following is a reconciliation of income taxes computed at the Federal statutory rate of 21% in 2023 and 2022 to the effective rate used for the provision for income taxes for the years ended December 31:

	2023	2022
Income tax provision at the federal statutory rate	$ 2,145	$ 2,128
State franchise tax benefit, less federal income tax effect	835	829
Incentive stock option expense	15	—
Nondeductible expenses and other	—	29
Life insurance earnings	(108)	(40)
Tax exempt municipal bond interest	(35)	(35)
Tax benefit of stock options exercised	(8)	(18)
Net provision for income taxes	$ 2,844	$ 2,893

The tax effects of temporary differences that give rise to the components of the net deferred tax assets as of December 31 were as follows:

	2023	2022
Deferred tax assets:		
Unrealized security holding losses	$ 4,045	$ 5,081
Allowance for credit losses	1,689	1,488
Salary continuation plan	468	405
State taxes	240	234
Non-statutory stock options	123	108
Operating lease liabilities	109	138
Off-balance sheet commitments	41	68
Vacation liability	5	10
Organizational costs	2	—
Other	50	16
Total deferred tax assets	6,772	7,548
Deferred tax liabilities:		
Depreciation	(342)	(261)
Operating lease right of use asset	(109)	(138)
Total deferred tax liabilities	(451)	(399)
Net deferred tax assets	$ 6,321	$ 7,149

Amounts presented for the tax effects of temporary differences are based upon estimates and assumptions and could vary from amounts ultimately reflected on the Company's tax returns. Accordingly, the variances from amounts reported in prior years are primarily adjustments to conform to the tax returns as filed. Income taxes refundable (payable) at December 31, 2023 and 2022 were $467,000 and $501,000, respectively.

The Company files an income tax return in the U.S. federal jurisdiction and a franchise tax return in the State of California jurisdiction. The Company is no longer subject to U.S. federal income tax examinations and state franchise tax examinations for years prior to 2020 and 2019, respectively.

(table amounts in thousands, except share and per share amounts)

NOTE N – INCOME TAXES (Continued)

FASB ASC 740-10 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement and classification of amounts relating to uncertain tax positions, accounting for the disclosure of interest and penalties, accounting in interim periods, disclosures and transition relating to the adoption of the new accounting standard. The Company adopted provisions of FASB 740-10 on January 1, 2007. There have been no adjustments identified for unrecognized tax benefits which would require an adjustment to the income statement since this pronouncement was implemented. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. The Company recognized no interest or penalties since this pronouncement was implemented.

NOTE O – EARNINGS PER SHARE

The following is a computation of basic and diluted earnings per share for the years ended December 31:

	2023	2022
Basic:		
Net income	$ 7,371	$ 7,243
Weighted-average common shares outstanding	1,479,884	1,472,381
Net income per share	$ 4.98	$ 4.92
Diluted:		
Net income	$ 7,371	$ 7,243
Weighted-average common shares	1,479,884	1,472,381
Net effect of dilutive stock options - based on treasury stock method	44,009	54,353
Weighted-average common shares outstanding and common stock equivalents	1,523,893	1,526,734
Net income per share-assuming dilution	$ 4.84	$ 4.74

Shares of common stock issuable under stock options that have an exercise price greater than average market prices are not included in the computation of diluted earnings per share due to their antidilutive effect. For the years ended December 31, 2023 and 2022, antidilutive stock options totaled 11,378 and 126, respectively.

(table amounts in thousands, except share and per share amounts)

NOTE P – STOCK OPTION PLAN

In April 2017, the Board of Directors approved the Cornerstone Community Bancorp 2017 Omnibus Plan (the 2017 Plan), which expires on April 17, 2027. The 2017 Plan provides long-term incentives (“Awards”) to eligible members of the board of directors and employees in the form of incentive and nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock units, as defined in the Internal Revenue Code. The 2017 Plan allows a maximum number of shares available for all awards of 300,000 shares of Cornerstone Community Bancorp common stock. Awards granted since 2018 were provided under the 2017 Plan. All awards outstanding at December 31, 2017 were provided under the 2006 Cornerstone Community Bancorp Stock Option Plan (2006 Plan), which expired in 2016. Those awards are not affected by the approval of the 2017 Plan. Awards issued under the 2006 Plan do not reduce the maximum number of shares that may be issued for all awards under the 2017 Plan.

Each award under the 2017 Plan is required to be documented by a written agreement specifying the terms and conditions of the award approved by the Administrator (the Board of Directors or a committee appointed by the Board of Directors). Awards generally have a maximum term of 10 years from the date granted and generally expire at the awardee’s separation from the Company, or within 90 days of separation. The exercise price of stock options may not be less than the fair market value of the Company’s stock on the date granted. The maximum value of stock appreciation rights and restricted stock that may be granted to any awardee in a calendar year is $500,000. Unless otherwise expressly provided in an agreement relating to an award, in the event of a change in control of Cornerstone Community Bancorp (as defined in the 2017 Plan): (1) all of the participant’s outstanding options and stock appreciation rights will become fully and immediately vested and exercisable; and (2) the restriction period applicable to all outstanding awards of restricted stock will immediately expire and all restrictions imposed under such awards will immediately lapse.

There were no options granted during 2023.

Information related to stock options granted during the year ended December 31, 2022 is as follows:

	2022
Weighted average grant date fair value per share	$ 9.92
Significant fair value assumptions:	
Expected term	6.5 years
Expected annual volatility	26.5%
Expected annual dividend yield	0.0%
Risk-free interest rate	3.9%

The fair value of options granted is estimated on the date of the grant using the Black-Scholes option pricing model.

Expected volatilities used in the pricing model are based on historical volatility of the Company’s stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules, and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

(table amounts in thousands, except share and per share amounts)

NOTE P – STOCK OPTION PLAN (Continued)

A summary of stock option activity during the years ended December 31 is as follows:

	Incentive Stock Options			
	2023		2022	
	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares
Shares under option at beginning of year	$ 20.80	53,229	$ 8.51	34,500
Options granted	—	—	27.36	35,000
Options expired	—	—	15.25	(300)
Options forfeited	—	—	15.25	(1,200)
Options exercised	8.20	(2,610)	8.20	(14,771)
Shares under option at end of year	$ 21.45	50,619	$ 20.80	53,229
Options exercisable at end of year	$ 14.13	22,619	$ 8.20	18,229

	Nonstatutory Stock Options			
	2023		2022	
	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares
Shares under option at beginning of year	$ 17.16	91,500	$ 16.78	99,000
Options exercised	—	—	12.10	(7,500)
Shares under option at end of year	$ 17.16	91,500	$ 17.16	91,500
Options exercisable at end of year	$ 16.49	73,500	$ 15.73	56,500

The intrinsic value of outstanding, vested and expected to vest incentive and nonstatutory stock options was $367,000 and $1,056,000, respectively, at December 31, 2023. Exercisable incentive and nonstatutory stock options had intrinsic value of $330,000 and $898,000, respectively, at December 31, 2023. At December 31, 2022, the intrinsic value of outstanding, vested and expected to vest incentive and nonstatutory stock options was $352,000 and $937,000, respectively. Exercisable incentive and nonstatutory stock options had intrinsic value of $350,000 and $660,000, respectively, at December 31, 2022. The weighted average remaining contractual term of incentive and nonstatutory stock options outstanding, vested and expected to vest was 6.53 years and 4.48 years, respectively, at December 31, 2023. The weighted average remaining contractual term of incentive and nonstatutory stock options outstanding, vested and expected to vest was 7.26 years and 5.48 years, respectively, at December 31, 2022.

Upon the exercise of stock options, new shares are issued. Total cash received for the exercise of options during 2023 and 2022 was $5,000 and $212,000, respectively. There were $37,000 of stock options repurchased during 2023. There were no stock options repurchased during 2022.

There were $11,000 and $26,000 in benefits realized for the tax deductions from stock options exercised during 2023 and 2022, respectively.

(table amounts in thousands, except share and per share amounts)

NOTE P – STOCK OPTION PLAN (Continued)

A summary of the status of the Company's nonvested shares as of December 31, and changes during the year ended December 31, is presented below:

	Incentive Stock Options			
	2023		2022	
Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at beginning of year	35,000	$ 9.92	1,200	$ 3.95
Granted	—	—	35,000	9.92
Forfeited	—	—	(1,200)	3.95
Vested	(7,000)	9.92	—	—
Nonvested at end of year	28,000	$ 9.92	35,000	$ 9.92

	Nonstatutory Stock Options			
	2023		2022	
Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at beginning of year	35,000	$ 4.80	52,000	$ 4.92
Vested	(17,000)	5.16	(17,000)	5.16
Nonvested at end of year	18,000	$ 4.46	35,000	$ 4.80

As of December 31, 2023 and 2022, there was $324,000 and $444,000, respectively, of total unrecognized compensation cost related to nonvested stock options under the Plan. That cost is expected to be recognized over a weighted-average period of 3.58 and 4.32 years at December 31, 2023 and 2022, respectively. The total fair value of options vested (net of forfeitures) during the year ended December 31, 2023 and 2022 was $157,000 and $88,000, respectively.

Total compensation cost for all share-based payments recognized in net income for 2023 and 2022 was $85,000 and $62,000, respectively. The compensation cost was net of a tax benefit of $36,000 and $26,000 in 2023 and 2022, respectively.

NOTE Q – RELATED PARTY TRANSACTIONS

The Company received deposits from directors and officers and their related interests totaling $5.2 million and $5.8 million at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, there were loan commitments to related parties totaling approximately $9.7 million and $10.1 million, respectively. At December 31, 2023 and 2022, undisbursed loan commitments to related parties totaled $1.7 million and $3.2 million, respectively.

(table amounts in thousands, except share and per share amounts)

NOTE R – CONTINGENT LIABILITIES AND COMMITMENTS

Financial Instruments with Off-Balance-Sheet Risk

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Company's commitments and contingent liabilities is as follows at December 31:

	Contractual Amounts	
	2023	2022
Commitments to extend credit	$ 107,517	$ 114,771
Standby letters of credit	2,995	2,715
	$ 110,512	$ 117,486

Commitments to extend credit and standby letters of credit include exposure to some credit loss in the event of nonperformance of the customer. The Company's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the balance sheet. Because most of these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company.

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. The Company evaluates each customer's credit worthiness 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 of the customer. Collateral held varies but may include accounts receivable, inventory, deeds of trust on residential real estate 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. Those guarantees are primarily issued to support public and private borrowing arrangements. All letters of credit are short-term guarantees with no guarantees extending more than two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending facilities to customers.

The Bank did not incur any losses on its commitments in 2023 or 2022.

Deposit concentrations

The Company has a limited number of deposit relationships greater than 3% of total deposits that in the aggregate represents approximately 15% and 17% of the Company's deposits as of December 31, 2023 and 2022, respectively. The Company's largest single deposit relationship at December 31, 2023 and 2022 totaled $24.6 million and $27.9 million, or 4.37% and 5.21% of total deposits, respectively.. Management maintains sufficient on and off-balance sheet liquidity to mitigate the risk of large withdrawals by the Company's large depositors.

Contingencies

The Company may be subject to legal proceedings and claims that arise in the ordinary course of business. Management does not expect the ultimate disposition of these matters to have a material adverse impact on the financial statements.

NOTE S – CONCENTRATIONS OF CREDIT RISK

The Company serves businesses and individuals in Tehama and Shasta Counties and the surrounding areas within the State of California. Most of the Company's loans have been granted to customers in the Company's market area. General economic conditions or natural disasters affecting the primary market area could affect the ability of

NOTE S – CONCENTRATIONS OF CREDIT RISK (Continued)

customers to repay loans and the value of real property used as collateral. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The Company requires that all loans have adequate collateral to secure the loan or that the borrower has evidence of sufficient cash flows to repay loans when the loans are made. All collateral must have an appraisal, if applicable, and collateral is generally secured by liens. The Company's access to this collateral is through judicial procedures.

The concentrations of credit by type of loan are set forth in Note D. In management's judgment, a concentration of loans exists in real estate secured loans with approximately 71% and 75% of the Company's loans being real estate related at December 31, 2023 and 2022, respectively. In particular, real estate – commercial represents approximately 48% and 51% of the Company's loans at December 31, 2023 and 2022, respectively. The Company, as a matter of policy, generally restricts loans to a single borrower or group of related borrowers and investments by the Company to 25% of the sum of the Company's equity capital plus the allowance for credit losses, subject to certain adjustments. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit, if necessary, by the Company is based on management's credit evaluation of the customer. Collateral held varies but may include residential and commercial real property, marketable securities, accounts receivable, inventory, equipment, savings accounts and automobiles.

The concentrations by type of investment security are set forth in Note C. Deposits with correspondent banks were not in excess of federally insured limits at December 31, 2023 and 2022. The Bank had no significant federal funds sold to correspondent banks at December 31, 2023 and 2022. Management closely monitors the financial condition of their correspondent banks on a continuous basis.

NOTE T – CAPITAL AND REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

As a small bank holding company, the Company is not subject to specific regulatory capital requirements. The risk-based capital guidelines described below apply on a consolidated basis to bank holding companies with consolidated assets of $3 billion or more. For bank holding companies with less than $3 billion in consolidated assets, the guidelines will be applied on a bank-only basis unless: (a) the parent bank holding company is engaged in nonbank activity involving significant leverage, or (b) the parent company has a significant amount of outstanding debt that is held by the general public. Because neither (a) nor (b) apply to the Company, regulators look to the Bank's capital ratios when assessing the adequacy of the Company's capital.

The Bank is required to comply with applicable capital adequacy standards established by the Federal Reserve Board (the "Basel III Capital Rules"). Quantitative measures established by the Basel III Capital Rules designed to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

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

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital. The Bank did not have any additional Tier 1 capital beyond Common Equity Tier 1 at December 31, 2023 or 2022.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for the Bank includes a permissible portion of the allowance for credit losses.

NOTE T – CAPITAL AND REGULATORY MATTERS (Continued)

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

The Basel III Capital Rules require the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% Common Equity Tier 1 capital ratio, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the “countercyclical capital buffer,” which is discussed below) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall and the institution’s “eligible retained income” (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income). The countercyclical capital buffer is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The following table presents actual and required capital ratios as of December 31, 2023 and December 31, 2022 for the Bank under the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required Plus Capital Conservation Buffer		Required to be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2023						
Total Capital						
(to Risk Weighted Assets)	$ 70,181	12.83% ≥	$ 57,447 ≥	10.50% ≥	$ 54,711 ≥	10.00%
Tier I Capital						
(to Risk Weighted Assets)	$ 64,229	11.74% ≥	$ 46,505 ≥	8.50% ≥	$ 43,769 ≥	8.00%
Common Equity Tier I Capital						
(to Risk Weighted Assets)	$ 64,229	11.74% ≥	$ 38,298 ≥	7.00% ≥	$ 35,562 ≥	6.50%
Tier I Capital						
(to Average Assets)	$ 64,229	9.92% ≥	$ 25,887 ≥	4.00% ≥	$ 32,358 ≥	5.00%
As of December 31, 2022						
Total Capital						
(to Risk Weighted Assets)	$ 62,248	12.66% ≥	$ 51,629 ≥	10.50% ≥	$ 49,171 ≥	10.00%
Tier I Capital						
(to Risk Weighted Assets)	$ 56,860	11.56% ≥	$ 41,795 ≥	8.50% ≥	$ 39,336 ≥	8.00%
Common Equity Tier I Capital						
(to Risk Weighted Assets)	$ 56,860	11.56% ≥	$ 34,419 ≥	7.00% ≥	$ 31,961 ≥	6.50%
Tier I Capital						
(to Average Assets)	$ 56,860	9.51% ≥	$ 23,923 ≥	4.00% ≥	$ 29,903 ≥	5.00%

NOTE T – CAPITAL AND REGULATORY MATTERS (Continued)

As of December 31, 2023 and 2022, capital levels for the Bank exceed all capital adequacy requirements under the Basel III Capital Rules. Based on the ratios presented above, capital levels as of December 31, 2023 and 2022 for the Bank exceed the minimum levels necessary to be considered "well capitalized."

The Bank is subject to the regulatory capital requirements administered by the Federal Reserve Board and the Federal Deposit Insurance Corporation ("FDIC"). Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct material effect on the Company's and Bank's financial statements. Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which they are subject.

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of interest on its subordinated debentures and to provide for other cash requirements, including to repurchase its common stock. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. Under the foregoing dividend restrictions and while maintaining its "well capitalized" status, at December 31, 2023 and 2022, the Bank could pay aggregate dividends of up to $15.5 million and $13.1 million, respectively, to the Company without prior regulatory approval.

NOTE U – FAIR VALUE

Fair Value Hierarchy and Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing as asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Available for Sale Debt Securities: The fair values for available for sale debt securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For these securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

(table amounts in thousands, except share and per share amounts)

NOTE U – FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis, are summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2023				
Assets:				
Available for sale debt securities				
U.S. agency securities - excluding mortgage-backed securities	$ —	$ 6,143	$ —	$ 6,143
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	—	638	—	638
Government agency collateralized mortgage obligation	—	16,289	—	16,289
Private-label collateralized mortgage obligation	—	1,446	—	1,446
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	—	840	—	840
Private-label collateralized mortgage obligation	—	5,831	—	5,831
Municipal bonds:				
Tax-exempt	—	8,574	—	8,574
Taxable	—	42,687	—	42,687
Asset backed securities:				
Government sponsored student loan pools	—	8,695	—	8,695
Corporate debt securities	—	1,922	—	1,922
Total available for sale debt securities	$ —	$ 93,065	$ —	$ 93,065

(table amounts in thousands, except share and per share amounts)

NOTE U – FAIR VALUE (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2022				
Assets				
Available for sale debt securities				
U.S. agency securities - excluding mortgage-backed securities	$ —	$ 6,562	$ —	$ 6,562
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	—	766	—	766
Government agency collateralized mortgage obligation	—	17,045	—	17,045
Private-label collateralized mortgage obligation	—	2,450	—	2,450
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	—	825	—	825
Private-label collateralized mortgage obligation	—	5,863	—	5,863
Municipal bonds:				
Tax-exempt	—	8,288	—	8,288
Taxable	—	40,600	—	40,600
Asset backed securities:				
Government sponsored student loan pools	—	10,152	—	10,152
Corporate debt securities	—	1,884	—	1,884
Total available for sale debt securities	$ —	$ 94,435	$ —	$ 94,435

Transfers between levels of the fair value hierarchy are recognized through the Company’s monthly and/or quarterly valuation process in the reporting period during which the event or circumstances that caused the transfer occurred. No such transfers occurred in the years presented.

Disclosures about Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2023 and 2022 are as follows:

(table amounts in thousands, except share and per share amounts)

NOTE U – FAIR VALUE (Continued)

	Carrying	Fair Value Measurements			
	Amount	Level 1	Level 2	Level 3	Total
December 31, 2023:					
Financial assets (recorded at amortized cost):					
Cash and cash equivalents	$ 28,317	$ 28,317	$ —	$ —	$ 28,317
Restricted equity securities	3,077	—	3,077	—	3,077
Loans, net	476,399	—	—	451,951	451,951
Accrued interest receivable	3,306	3,306	—	—	3,306
Financial liabilities (recorded at amortized cost)					
Time deposits	122,034	—	121,615	—	121,615
Other borrowings	20,000	—	19,947	—	19,947
Subordinated debentures	12,000	—	—	11,385	11,385
Accrued interest payable	866	866	—	—	866
December 31, 2022:					
Financial assets (recorded at amortized cost):					
Cash and cash equivalents	$ 30,963	$ 30,963	$ —	$ —	$ 30,963
Restricted equity securities	2,992	—	2,992	—	2,992
Loans, net	415,256	—	—	388,489	388,489
Accrued interest receivable	2,156	2,156	—	—	2,156
Financial liabilities (recorded at amortized cost)					
Time deposits	88,431	—	87,379	—	87,379
Subordinated debentures	12,000	—	—	11,036	11,036
Accrued interest payable	369	369	—	—	369

The estimated fair value approximates carrying value for cash and cash equivalents, restricted equity securities and accrued interest. Management has not disclosed the fair value of financial instruments specifically excluded from disclosure requirements, such as cash surrender value of life insurance, non-maturity deposit liabilities and lease obligations. The methods and assumptions used for the other financial assets and liabilities not carried at fair value are discussed below:

Loans, net: The estimated fair value approximates carrying value for variable-rate loans that reprice frequently and with no significant change in credit risk. The fair value of fixed-rate loans and variable-rate loans which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. An overall valuation adjustment is made for specific credit risks as well as general portfolio credit risk.

Time deposits: The estimated fair value is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities.

Other borrowings: The estimated fair value is estimated by discounting future cash flows using current interest rates for similar financial instruments.

Subordinated debentures: The estimated fair value is estimated by discounting future cash flows along the SOFR swap discount curve. The Company’s subordinated debentures are not registered securities and were issued through private placements, resulting in a Level 3 classification.

Cornerstone Community Bank and Bancorp
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Vice Chairman

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Dr. Brian Haugen
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Kenneth E. Robison, III
Board Member

Matthew B. Moseley
Board Member

Scott Putnam
Board Member

CORNERSTONE COMMUNITY BANK

Executive Management

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President and Chief Executive Officer and Board Member

Cindy R. Fisher
Executive Vice President and Chief Credit Officer

Sarah N. Taylor
Executive Vice President and Chief Operating Officer

Patrick E. Phelan
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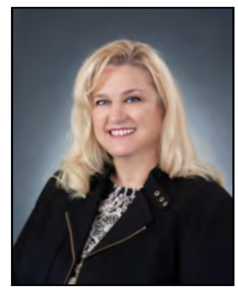
Senior Vice President
Commercial Loan Officer

Alissa Bell
Senior Vice President
Compliance & BSA Officer

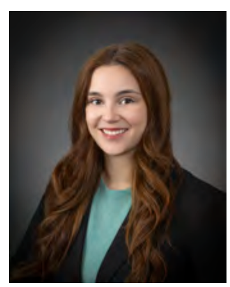
Heather Bell
Senior Vice President
Director of Information Technology

Jason Luther
Senior Vice President
Controller



Desiree Mackay
Senior Vice President
Loan Systems Administrator

John Martinson
Senior Vice President
Agricultural Loan Officer



Jamie Robertson
Senior Vice President
Credit Administrator and Loan Officer

CORNERSTONE COMMUNITY BANK

FOUNDING ORGANIZERS

Mary Adams	*Tom Amundson*	*Benny Brown*	*Dan Byrd*
Ines Crosby	*Joe Dominick*	*Stephen J. Downey*	*Mike Dudley*
Tom Eubanks	*Brendon Flynn*	*Lester Fox*	*William Groom*
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Brian Russell	*Paul Sutfin*	*Joseph Tallerico*	*Trudy Tavares*
Chuck Tompkins	*Robert Towne*	*Charles Wright*	*Donald Young*

CORNERSTONE COMMUNITY BANK

2023 Community Involvement

Cornerstone Community Bank is honored to partner with these community organizations and many more:

- Active 20-30 Club of Red Bluff #455
- Alzheimer's Association
- Anderson Chamber of Commerce
- Back-to-School Project
- Berrendos Middle School
- Cascade Theatre
- Children's Legacy Center
- Community Foundation of the North State
- Cottonwood Community Center & Park
- Dairyville Community Club
- Deserving Pets Rescue
- Empire Recovery Center
- Enterprise Lions Club
- Family Counseling Center
- Family Dynamics Resource Center
- Friends of the Redding Rodeo
- Girls Inc. of Northern Sacramento Valley
- Haven Humane Society
- Jeremy Stoke Foundation
- Jim Owens Memorial Ranch Rodeo
- Kiwanis Club of Shasta Dam Foundation
- KIXE-TV Channel 9
- Lassen Park Foundation
- Leadership Redding
- Make-A-Wish Foundation
- Mercy Foundation North
- NOR-CAL Retired Coaches Association
- North Cow Creek School
- Northern California Child Development, Inc.
- North State Cancer League
- North State Soccer
- North State Symphony
- North Valley Services
- Palo Cedro Park
- Pathways to Hope for Children
- Prime Cinemas
- Reach Higher Shasta
- Red Bluff American Legion Baseball
- Red Bluff Bull & Gelding Sale
- Red Bluff FFA
- Red Bluff Jr Round-up
- Red Bluff Jr Spartans
- Red Bluff Kiwanis Club
- Red Bluff Little League
- Red Bluff Rotary
- Red Bluff Round-Up Association
- Red Bluff-Tehama County Chamber of Commerce
- Red Bluff Union High School District
- Red Bluff Youth Expansion
- Redding Area Bus Authority – Salute to Veterans
- Redding Asphalt Cowboys
- Redding Christian School
- Redding Colt 45s Baseball
- Redding Community Builders
- Redding East Rotary
- Redding Library
- Redding Lighted Christmas Parade
- Redding Parks and Trails Foundation
- Redding Peace Officers Association
- Redding Rodeo Association
- Redding Trail Alliance
- Redding West Rotary
- Riverfront Playhouse
- Riverview Golf & Country Club
- Rotary Club of Redding
- Sacred Heart School
- Shasta County Development Council
- Shasta County Farm Bureau
- Shasta District Junior Livestock Auction
- Shasta Firefighters Burn and Benevolent Fund
- Shasta Head Start
- Shasta High Choir
- Shasta High School Athletic Booster Club
- Shasta Land Trust
- Shasta Library Foundation
- Shasta Regional Medical Center Foundation
- SHIELD Training Center
- ShiningCare
- Solutions for Youth
- State Theatre
- SWEAT Running Club
- Tehama Conservation Fund
- Tehama County 4-H Leaders Council
- Tehama County Cattlemen
- Tehama County Cattlewomen
- Tehama County Education Foundation
- Tehama County Farm Bureau
- Tehama District Fair
- Tehama District Junior Livestock Auction
- The Exchange Club of Redding
- Trinity Hotshots
- Turtle Bay Exploration Park
- VFW Post 9650 Anderson
- Viva Downtown
- Western Fiddle Championship
- Wilcox Oaks Golf Club

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