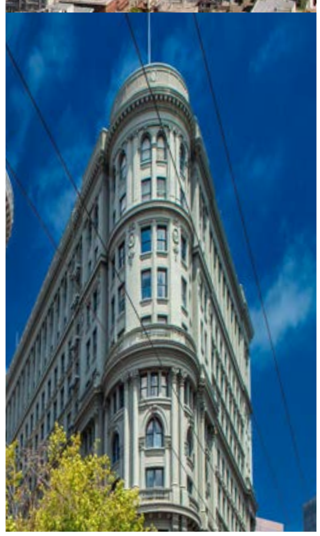
Community BANK OF THE BAY
Different. On Purpose.





OAKLAND SAN JOSE SAN FRANCISCO SAN MATEO DANVILLE

2023 ANNUAL REPORT

STRENGTH. STABILITY. ENDURANCE.

BAY COMMUNITY BANCORP BOARD OF DIRECTORS

William E. Purcell
Chairman of the Board

William S. Keller
Director

Tracey A. Enfantino
Director

Raymond J. Figone
Director

Ben Mackovak
Director

Samuel M. Hedgpeth III
Director

COMMUNITY BANK OF THE BAY BOARD OF DIRECTORS

William E. Purcell
Chairman of the Board

Samuel M. Hedgpeth III
Vice Chairman

William S. Keller
Director & CEO

Eddie C. Cheung
Director

Tracey A. Enfantino
Director

Raymond J. Figone
Director

Ben Mackovak
Director

Patricia Remch
Director

Kenneth Seideman
Director

Frank Tsai
Director

COMMUNITY BANK OF THE BAY MANAGEMENT TEAM

William S. Keller
Chief Executive Officer

Mukhtar Ali
President & Chief Credit Officer

Tony Sachs
EVP, Chief Digital Transformation Officer

Chaula M. Pandya
SVP, Chief Technology Officer

Mark Roach
SVP, Chief Banking Officer

Erick Kostuchek
SVP, Chief Customer Experience Officer

Karry Karavolos Bryan
SVP, Interim Chief Financial Officer

Laura Aerni
SVP, Chief Risk Officer

COMMUNITY BANK OF THE BAY SVP TEAM

Kelny Denebeim
SVP, Managing Director of CDFI & Nonprofit Banking

Helen Shipp
SVP, Managing Director of Loan Servicing

Winnie Lau Switalski
SVP, Managing Director of Marketing

Francisco Terrizzano
SVP, South Bay Regional Manager

Daniel Fujimoto
SVP, Diablo Valley Region Regional Manager

Emily Wu
SVP, Oakland Regional Manager

Margaret Perry
SVP, Relationship Manager

Tommy Rodriguez
SVP, Construction Loan Officer

Steven Layshock
SVP, Relationship Manager

Karen Vandenberg
SVP, Relationship Manager

Nathan LaBudde
SVP, Relationship Manager

Garland Xu
SVP, Deposit Relationship Manager

Cary Schroeder
SVP, Credit Administrator

Carol Pitts
SVP, Loan Servicing Manager

Values are not words. They are **who we are.**

RELATIONSHIP · COMMITMENT · SUSTAINABILITY · EMPOWERMENT · TRUST · RESPECT

BAY COMMUNITY BANCORP

2024 SHAREHOLDER LETTER

Dear Bay Community Bancorp Shareholder:

After a tumultuous beginning that resulted in the demise of a few prominent regional banks, 2023 settled into what we think will be our basic operating environment for the foreseeable future.

Throughout the year our team worked hard to provide our clients with confidence and service, and our shareholders with the financial performance that has been the foundation of our bank.

2023's financial performance included a number of records, including $8.2 million in Net Income, $975.0 million in Total Assets and $670.2 million in Total Loans. Of the key growth measures, only Total Deposits fell short of record results.

We also executed on our plan to actively manage our abundant capital position. In April 2023, we increased our dividend 11%, the second dividend increase since we initiated a dividend in 2021, and in October 2023 we announced a Share Repurchase initiative to acquire approximately 436 thousand shares or five percent of outstanding shares. By year-end we had purchased 207 thousand shares on the open market at an average price of $7.55.

In spite of what was a very challenging start, 2023 turned out to be another solid year of financial performance for our bank and one that we can build on going forward.

As we plan ahead, we believe that we will operate in something similar to today's environment for at least the next few years. We have three major themes on our radar, two of which are broad macro issues that we think will impact our industry's operating environment and one is an opportunity uniquely specific to banks like ours.

The first factor that we see is that we expect to be in an extremely competitive deposit environment for at least the next several years. Higher interest rates, the bank failures that caused more depositors to seek the "protection" of too-big-to-fail banks, and the eventual right-sizing of the Federal Reserve's balance sheet will all increase the competition for the core deposits that fuel a bank's growth and have an outsized influence on its margins.

In the second half of 2023, we sought to better position our bank to compete for deposits by investing in deposit focused resources, including offices, talent and technology. We relocated our existing San Mateo office to a larger, more visible location that gives us a greater presence in this important market. We opened a new full-service branch in San Jose and a new production office in San Francisco. We added new teams, led by experienced and well-respected managers that are focused on deposit gathering activities. And we

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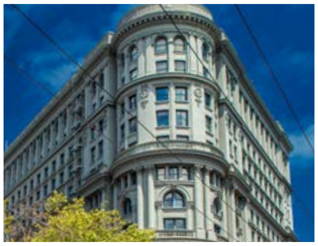

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Community BANK OF THE BAY
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launched a digital account opening process that had been stalled until it was reenergized with new leadership and technical expertise. We have high expectations for these investments and will measure success not only by volume but by cost. Given the size of our investments, we recognize the importance of also managing efficiency.

The second macro factor that we expect to be with us for some time is the continuing disruption in the commercial real estate market. Lending against commercial real estate has been a core competency for small and regional banks and a slowdown in transactions will generally lead to a slowdown in loan demand. Commercial real estate values have been broadly impacted by higher interest rates and capitalization rates, and certain sectors, most notably the downtown office, have experienced large increases in vacancy rates. So far major price declines and foreclosures have been centered in large downtown office properties that have been impacted by the move to remote work. Thankfully we have no direct exposure to this asset class and our loan portfolio remains extremely strong, but we must remain alert for any signs of contagion into other markets that we do serve.

These two environmental conditions will affect all banks to some extent, but will also provide opportunities for those banks with unique strengths and capabilities. We believe that we are one of those banks. The industry failures provided the opportunity to attract talent that was previously unavailable, and our unique story and financial stability resonated with these professionals and their clients. When a few regional banks failed and bank safety was paramount, we and our peers communicated to our clients the many ways that our banks were different from the troubled regionals. Invariably those communications included some reference to capital strength, which is a key measure of bank stability. While our peers referred to their capital base as being some percentage higher than what is considered "Well Capitalized" by the regulators, ours literally referenced a multiple of the standard, not one or two, but three times the standard. That is a strength that obviously few peers can match and we intend to utilize it to our advantage.

We recognize that our unique advantage has been made possible by our twenty-eight-year commitment to being a mission-driven financial institution and the resultant relationship with the Community Development Financial Institutions Fund. We are pleased to say that our relationship continues to grow and gain momentum. At the 2023 Community Development Bankers Association ("CDBA") Peer Forum in Washington D.C. guest speakers including FDIC Chairman Gruenberg, Acting Comptroller of the Currency Hsu and senior leaders at the Consumer Financial Protection Bureau all voiced their continued support for, and the importance of, the CDFI industry and the positive impact it makes on underserved communities. Agency leaders were joined by a bipartisan group of congressional leaders from the House and Senate's Banking and Finance Committees who reiterated their goal to "turn a moment into a movement." The moment referenced was the $12 billion made available to CDFI and Minority Deposit Institutions ("MDI's") through the CARES Act. That one piece of legislation provided our bank with a $1.8 million Rapid Response Grant in 2021, the most transformative of all,

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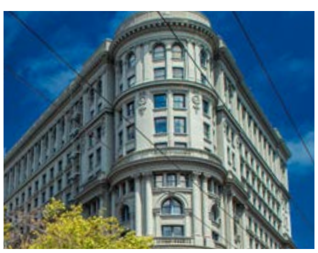

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a direct investment by the U.S. Treasury of over $119 million of attractively priced, permanent capital in 2022, and a $2.5 million Equitable Recovery Grant in 2023.

The movement they referenced is continued support for mission-driven banks like ours, and it can already be felt even in legislation that is not specific to community development, but utilizes CDFI banks as implementors. This just occurred with the Clean Communities Investment Accelerator program administered by the Environmental Protection Agency ("EPA") and authorized under the Inflation Reduction Act. This competitive program provides $6 billion to "finance clean technology deployment in low-income and disadvantaged communities, while simultaneously building the capacity of community lenders that serve those communities." The community lenders referenced are specifically identified as CDFI and MDI institutions like ours.

In late 2023, we joined with two separate non-profit master applicants to apply for the Clean Communities program grants and just this past week the EPA announced that one of our coalitions was awarded $940 million under the program. Shareholders are encouraged to review the EPA's grant announcement for more early details on the program: https://www.epa.gov/greenhouse-gas-reduction-fund/clean-communities-investment-accelerator.

Similar efforts are underway thanks to the Senate Community Development Finance Caucus founded in 2022 by Sen. Mark Warner (D-VA) and Sen. Mike Crapo (R-ID). Their most ambitious effort is The Community Development Investment Tax Credit Act of 2023, which is being sponsored by three Senators from each side of the aisle and provides annual tax credits to investors who provide low cost, patient capital to CDFI banks.

With bipartisan support in Congress, we expect that our small niche within the financial services industry will continue to benefit from legislative support and gain momentum, but ultimately, the success of our institution will remain squarely on us. It is our responsibility to build an enduring, sustainable institution that meets the expectations of our shareholders by meeting the needs of our clients. We are first and foremost a bank and we will not forget the time-tested attributes that maximize long-term success and value.

We believe we are well positioned to continue building our bank and we thank you for your continued support.

Sincerely,

William S. Keller
Chief Executive Officer

William E. Purcell
Chairman of the Board

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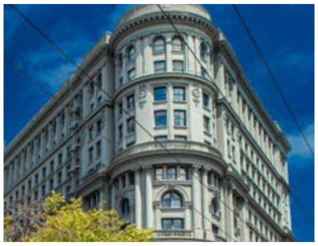
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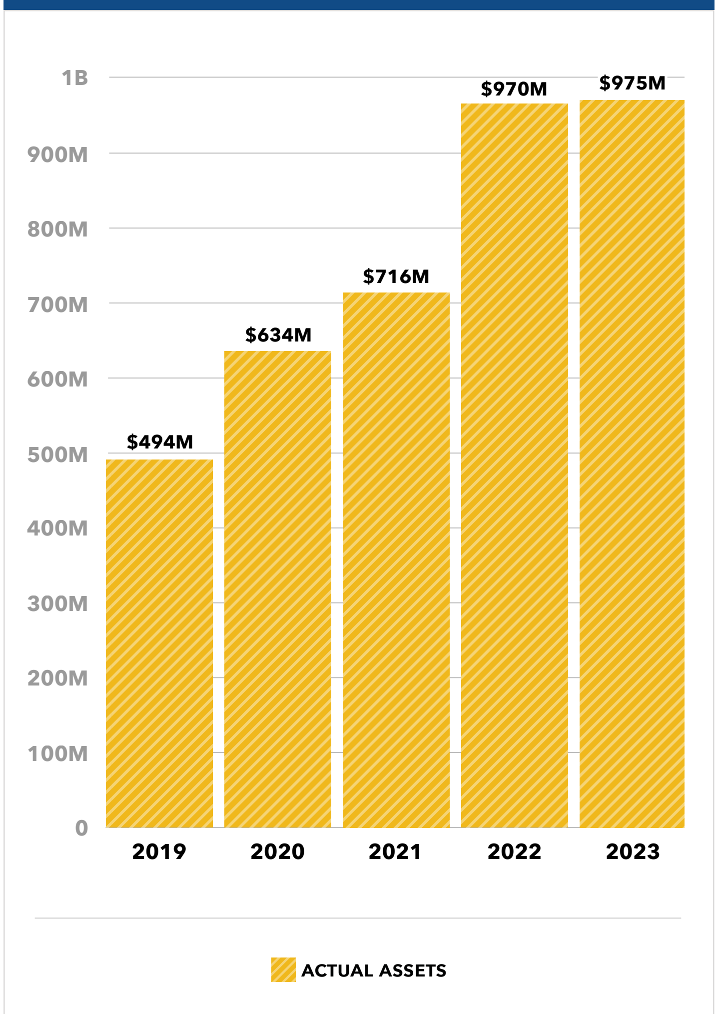
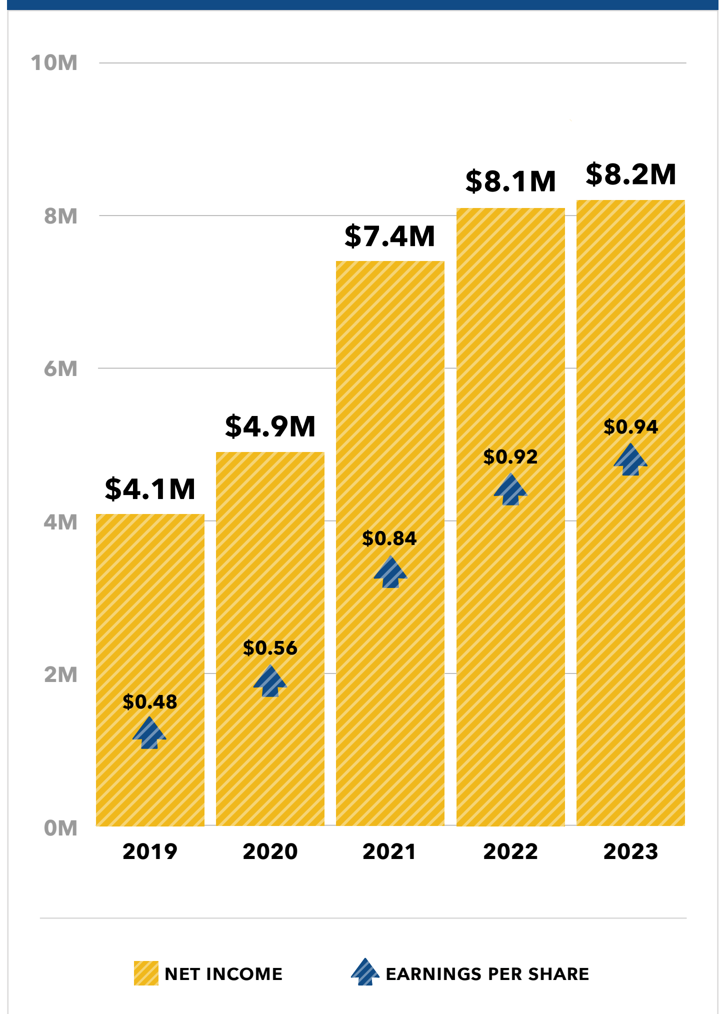
BAY COMMUNITY BANCORP
5-YEAR GROWTH TREND

TOTAL ASSETS
19%
COMPOUND ANNUAL GROWTH

NET INCOME
19%
COMPOUND ANNUAL GROWTH

TOTAL ASSETS


PROFITABILITY


Report of Independent Auditors
and Consolidated Financial Statements

Bay Community Bancorp and Subsidiary

December 31, 2023 and 2022

Table of Contents

MOSSADAMS

Report of Independent Auditors

The Board of Directors and Shareholders
Bay Community Bancorp

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses* ("Topic 326"). The Company adopted the new credit loss standard using the modified retrospective approach such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Bay Community Bancorp and its subsidiary'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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bay Community Bancorp and its subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bay Community Bancorp and its subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Moss Adams LLP

San Francisco, California
March 28, 2024

Consolidated Financial Statements

Bay Community Bancorp and Subsidiary
Consolidated Balance Sheets
December 31, 2023 and 2022

ASSETS

	2023	2022
Cash and due from banks	$ 49,358,907	$ 39,712,425
Federal funds sold	447,723	276,337
Total cash and cash equivalents	49,806,630	39,988,762
Interest-bearing deposits in banks	9,926,419	11,165,350
Investment securities available-for-sale, at fair value (amortized cost of $185,175,712 and $220,610,810, and allowance for credit losses of zero, respectively)	177,551,327	209,541,214
Investment securities held-to-maturity (net of $96,090 and zero allowance for credit losses, respectively)	31,403,910	31,500,000
Loans, less allowance for credit losses of $6,206,622 in 2023 and $6,889,222 in 2022	670,239,121	650,703,004
Premises and equipment, net	1,144,926	1,045,511
Bank-owned life insurance, net	8,000,579	7,784,925
Interest receivable and other assets	26,952,573	18,129,149
Total assets	$ 975,025,485	$ 969,857,915

LIABILITIES AND SHAREHOLDERS' EQUITY

	2023	2022
Deposits		
Non-interest bearing	$ 176,515,708	$ 203,013,091
Interest bearing	457,350,670	502,894,190
Total deposits	633,866,378	705,907,281
Interest payable and other liabilities	8,297,019	4,604,731
Other borrowings	140,000,000	74,500,000
Total liabilities	782,163,397	785,012,012
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock, $1,000 par value; 10,000,000 shares authorized 119,413 shares issued and outstanding at December 31, 2023 and 2022	119,368,583	119,368,583
Class A common stock, voting, no par value; 20,000,000 shares authorized; 8,524,112 and 8,671,958 shares issued and outstanding at December 31, 2023 and 2022, respectively	47,851,980	48,799,788
Class B common stock, non-voting, no par value; 10,000,000 shares authorized; 56,844 shares issued and outstanding at December 31, 2023 and 2022	1,421,100	1,421,100
Retained earnings	29,587,992	23,060,498
Accumulated other comprehensive loss, net of taxes	(5,367,567)	(7,804,066)
Total shareholders' equity	192,862,088	184,845,903
Total liabilities and shareholders' equity	$ 975,025,485	$ 969,857,915

See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Interest and fees on loans	$ 37,701,098	$ 28,808,189
Interest on investment securities	7,436,222	4,529,974
Interest on federal funds sold	48,816	21,249
Interest on deposits in banks	5,093,185	1,541,026
Total interest income	50,279,321	34,900,438
INTEREST EXPENSE		
Interest expense on deposits	13,018,035	4,018,973
Interest on borrowings	5,438,336	665,377
Total interest expense	18,456,371	4,684,350
Net interest income	31,822,950	30,216,088
PROVISION FOR CREDIT LOSSES	450,658	400,000
Net interest income after provision for credit losses	31,372,292	29,816,088
NON-INTEREST INCOME		
Service charges	224,203	211,914
Government grants	2,916,189	170,699
Gain on sale of loans	238,330	-
Other income	787,675	635,748
Total non-interest income	4,166,397	1,018,361
NON-INTEREST EXPENSE		
Salaries and employee benefits	14,159,298	12,006,601
Stock option and restricted stock expense	435,967	332,021
Occupancy and equipment	1,769,470	1,390,174
Other expenses	7,586,504	5,662,770
Total non-interest expense	23,951,239	19,391,566
Net operating income before provision for income taxes	11,587,450	11,442,883
INCOME TAX EXPENSE	3,353,590	3,381,536
NET INCOME	$ 8,233,860	$ 8,061,347
NET INCOME PER SHARE -- BASIC	$ 0.94	$ 0.92
NET INCOME PER SHARE -- DILUTED	$ 0.93	$ 0.89

Bay Community Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	2023	2022
NET INCOME	$ 8,233,860	$ 8,061,347
CHANGE IN NET UNREALIZED GAINS (LOSSES) ON SECURITIES AVAILABLE FOR SALE	3,445,211	(10,693,134)
INCOME TAX (EXPENSE) BENEFIT	(1,008,712)	3,153,877
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	2,436,499	(7,539,257)
COMPREHENSIVE INCOME	$ 10,670,359	$ 522,090

	Emergency Capital Investment Program Preferred Stock		Class A Common Stock		Class B Common Stock				
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total Shareholders' Equity
BALANCES, January 1, 2022	-	$ -	8,814,208	$ 50,346,572	56,844	$ 1,421,100	$ 16,530,590	$ (264,809)	$ 68,033,453
Issuance of perpetual preferred	119,413	119,413,000	-	-	-	-	-	-	119,413,000
Capitalized issuance cost	-	(44,417)	-	-	-	-	-	-	(44,417)
Repurchase of common shares	-	-	(284,000)	(2,297,400)	-	-	-	-	(2,297,400)
Stock option exercised and restricted stock issued	-	-	141,750	418,595	-	-	-	-	418,595
Stock option expense and restricted stock expense	-	-	-	332,021	-	-	-	-	332,021
Dividend paid on common stock ($0.175 per share)	-	-	-	-	-	-	(1,531,439)	-	(1,531,439)
Net income	-	-	-	-	-	-	8,061,347	-	8,061,347
Other comprehensive loss, net	-	-	-	-	-	-	-	(7,539,257)	(7,539,257)
BALANCES, December 31, 2022	119,413	119,368,583	8,671,958	48,799,788	56,844	1,421,100	23,060,498	(7,804,066)	184,845,903
Repurchase of common shares	-	-	(206,750)	(1,559,900)	-	-	-	-	(1,559,900)
Stock options exercised and restricted stock issued	-	-	58,904	176,125	-	-	-	-	176,125
Stock options expense and restricted stock expense	-	-	-	435,967	-	-	-	-	435,967
Dividends paid on common stock ($0.195 per share)	-	-	-	-	-	-	(1,706,366)	-	(1,706,366)
Net income	-	-	-	-	-	-	8,233,860	-	8,233,860
Other comprehensive income, net	-	-	-	-	-	-	-	2,436,499	2,436,499
BALANCES, December 31, 2023	119,413	$ 119,368,583	8,524,112	$ 47,851,980	56,844	$ 1,421,100	$ 29,587,992	$ (5,367,567)	$ 192,862,088

Bay Community Bancorp and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,233,860	$ 8,061,347
Adjustments to reconcile net income to net cash from operating activities:		
Gain on loan sale	238,330	-
Provision for credit losses	450,658	400,000
Change in deferred loan origination fees, net	(188,229)	(317,993)
Change in interest receivable and other assets	(4,059,652)	(1,973,033)
Change in interest payable and other liabilities	5,153,285	818,267
Depreciation and amortization	384,930	404,491
Net amortization of premiums and discounts on investments available-for-sale	(1,442,064)	(345,307)
Stock option and restricted stock expense	435,967	332,021
Increase in cash surrender value of bank owned life insurance	(215,654)	(205,802)
Increase (decrease) in operating lease assets (liability)	(76,026)	-
Net cash provided by operating activities	8,915,405	7,173,991
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sold, called, and matured available-for-sale investment securities	62,000,000	-
Proceeds from principal repayments from available-for-sale investment securities	4,375,617	6,118,789
Purchases of available-for-sale investment securities	(29,498,455)	(172,997,626)
Purchases of held-to-maturity securities	-	(16,500,000)
Proceeds from loan sale	3,898,347	-
Purchase of FHLB stock	(2,004,300)	(986,800)
Principal and interest receivable on matured AFS investments	(5,187,500)	-
Change in interest-bearing deposits in banks	1,238,931	(5,612)
Net increase in originated loans and collection thereof	(23,839,133)	(117,264,337)
Purchases of premises and equipment	(450,001)	(123,418)
Net cash provided by (used in) investing activities	10,533,506	(301,759,004)

See accompanying notes and report of independent auditors.

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in demand, interest bearing, and savings deposits	(132,447,848)	25,352,427
Net increase in time deposits	60,406,945	70,320,478
Net increase in other borrowings	65,500,000	41,000,000
Repurchase of common stock	(1,559,900)	(2,297,400)
Dividends paid on common stock	(1,706,365)	(1,531,439)
Issuance of preferred stock, net	-	119,368,583
Proceeds from exercise of stock options	176,125	418,595
Net cash (used in) provided by financing activities	(9,631,043)	252,631,244
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,817,868	(41,953,769)
CASH AND CASH EQUIVALENTS, beginning of year	39,988,762	81,942,531
CASH AND CASH EQUIVALENTS, end of year	$ 49,806,630	$ 39,988,762

	2023	2022
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	$ 16,693,985	$ 3,764,126
Income taxes	$ 4,136,386	$ 3,830,000
Non-cash investing and financing activities:		
Change in unrealized gains (losses) on available-for-sale securities	$ 3,445,211	$ (10,693,134)
Operating lease liabilities recorded for new operating leases	$ 2,066,892	$ -

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Bay Community Bancorp ("Company") was incorporated in the State of California and began operations on December 7, 2020. The Company is the parent corporation and sole shareholder of its Subsidiary, Community Bank of the Bay ("Bank"). The Bank is a California state chartered bank that commenced banking operations on July 22, 1996. The Bank provides a range of banking services to individuals and businesses in the greater San Francisco Bay area, especially businesses employing residents of low and moderate income neighborhoods. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Consolidation

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

Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the classifications used in 2023. None of the reclassifications had an impact on equity or net income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and 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. The allowance for credit losses includes charges to reduce the recorded balances of loans receivable and debt securities to their estimated net realizable value, as appropriate. The allowance is based on estimates, and ultimate losses may vary from current estimates. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Company believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurances that the Company could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value of the collateral has been identified, the Company establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, prior loss experience and reasonable and

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

supportable forecast.

Other significant management judgments and accounting estimates reflected in the Company's financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of individually evaluated loans;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of stock option awards; and
- Determination of the fair value of financial instruments.

Concentrations of Credit Risk

Assets that subject the Company to concentrations of credit risk consist of loans, investment securities, and deposits in banks. Most of the Company's customers are located within Alameda and Contra Costa counties and the surrounding areas. The Company's primary lending products are discussed in Note 5 to the consolidated financial statements. The Company did not have any significant concentrations in its business with any one customer or industry. The Company obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies and are based upon the details underlying each loan agreement.

As of December 31, 2023 and 2022, the Company had cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers cash, due from banks, federal funds sold, and securities purchased under agreements to resell to be cash equivalents. Securities purchased under agreements to resell were $0 in 2023 and 2022, respectively. All have original maturities of three months or less.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks includes money market accounts and time deposits with original maturities greater than ninety days. These deposits are carried at cost, which approximates fair value.

Investment in Federal Home Loan Company Stock

In order to borrow from the Federal Home Loan Company ("FHLB"), the Bank is required to maintain an investment in FHLB capital stock. The investment of $5,283,800 and $3,279,500 at December 31, 2023 and 2022, respectively, is carried at cost, redeemable at par, at the discretion of the FHLB, and included in interest receivable and other assets on the consolidated balance sheets. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value that is included in interest receivable and other assets on the consolidated balance sheet.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Loan Fees

Loans are reported at their principal outstanding balance net of charge-offs. Loan origination fees and certain direct loan origination costs are deferred and the net amounts are amortized to interest income by a method that approximates a level yield over the contractual life of the underlying loans.

Income Recognition on Loans

Interest on loans, other than discounted installment loans, is credited to income based on the principal amount outstanding on a daily basis. Interest on discounted installment loans is recognized by a method which approximates the effective interest method. Interest accruals are discontinued on certain loans when collection of principal or interest is considered doubtful, or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Loans Held for Sale

The Company has originated government guarantied loans to customers under the Small Business Administration "SBA" program. The SBA provides guaranties of 75% to 90% of each loan. For some of these loans, the Company sells the guarantied portion of the loan to a third party and retains the unguarantied portion in its own portfolio. Loans held for sale include government loans and are reported at the lower of cost or fair value. Fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

Gains or losses on the sale of loans that are held for sale are recognized at the time of the sale, subject to the expiration of any warranty or recourse provisions, and determined by the difference between net sale proceeds and the net book value of the loans less the estimated fair value of any retained mortgage servicing rights and estimated discount recognized against the retained portion of the loan.

Servicing Assets

Periodically, the Company sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

The Company measures servicing assets initially at fair value and amortizes the servicing rights in proportion to, and over the period of, estimated net servicing revenues. Management assesses servicing rights for impairment as of each financial reporting date. Fair value adjustments that

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

encompass market-driven valuation changes and the runoff in value that occurs from the passage of time are each separately reported. Total servicing assets included in interest receivable and other assets on the consolidated balance sheet were $145,769 and $141,268 at December 31, 2023 and 2022, respectively. The Company evaluated the servicing asset for impairment at December 31, 2023 and 2022 and determined that no valuation allowance was needed.

The Company services loans that have been participated with other financial institutions totaling $8,997,980 and $12,422,257 as of December 31, 2023 and 2022, respectively. Control over these loans was surrendered without recourse and, therefore, the sold balances are not included on the Company's consolidated balance sheets.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the rights (free of conditions that prevent it from taking advantage of that right, beyond a more than trivial benefit to the transferor) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company sells certain portions of government guarantied loans in the secondary market. These sales are recorded by the Company when control is surrendered and any warranty period or recourse provision expires. There were no warranty or recourse provisions outstanding at December 31, 2023 for loans previously sold.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line basis. The estimated lives used in determining depreciation are:

Leasehold improvements	5 years
Furniture, fixtures, and equipment	3 – 7 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Deferred income taxes have been provided for the resulting temporary differences.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Company enters into leases in the normal course of business, primarily related to office space and Company branches. The Company's leases have remaining terms ranging from three months to five years, some of which include extending the lease for up to five years for each renewal option. The Company's leases do not include residual value guarantees or covenants. 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. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's 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 our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors for similar assets and credit quality. Right-of-use assets is currently reporting under interest receivable and other assets; as well as, lease liability is reporting under other liabilities in our balance sheet.

Bank-Owned Life Insurance

The Bank has purchased insurance on the lives of certain current and former Bank executives. The policies accumulate asset values to meet future liabilities including payment of employee benefits such as split dollar life insurance agreements, which provide an insurance benefits to the family of the individual on whom the policy is held. The cash surrender value of policies is recorded as an asset on the consolidated balance sheets. Increases in cash surrender value are recorded as other non-interest income in the consolidated statements of income.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the year in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the year of enactment.

A valuation allowance is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

The Company had no unrecognized tax benefits at December 31, 2023 and 2022.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Company is no longer subject to examinations by U.S. federal taxing authorities for years ended before December 31, 2020, and by state authorities for years ended before December 31, 2019.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss). The Company's primary source of comprehensive income (loss) is unrealized gains and losses on securities available for sale. Reclassification adjustments result from gains or losses on securities that are realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statements of comprehensive income.

Stock-Based Compensation

The company recognizes compensation expense for awards of stock options to employees and directors based on the grant-date fair value of those awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The assumptions used in this model include an estimate of expected volatility, which is based on the historical volatility of the price of similar company stocks, and an estimate of the expected option term, which is based on consideration of the vesting period and contractual term of the option. In addition, the company estimates the number of options expected to be forfeited based on historical forfeiture rates. The risk-free interest rates are equal to the U.S. Treasury yield at the time of the grant and commensurate with the expected term of the grant. Expense is recognized over the vesting period of the options. The company's stock compensation plan and related assumptions used in determining the fair value of awards are discussed in Note 19.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expense was $526,319 and $441,998 for the years ended December 31, 2023 and 2022, respectively and included in other expenses on the consolidated statements of income.

Net Income per Share

Basic net income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. However, dilutive earnings per share amounts are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Service charges on deposit accounts

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

Debit and ATM interchange fee income, net

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

Merchant fee income

Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants.

Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company groups assets and liabilities at fair value in a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Some fair value measurements, such as available-for-sale securities, are performed on a recurring basis, while others such as other real estate owned and impaired loans are performed on a non-recurring basis.

Recent Accounting Pronouncements and Adoption of New Accounting Standards

In March, 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles ("GAAP") to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with adoption methods varying based on transaction type. The Company has not elected to apply these amendments; as they did not have a material impact to either on financial condition or result of operations. We will continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The ASU eliminates the recognition and measurement guidance for troubled debt restructurings and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. This ASU also requires enhanced disclosure for loans that have been charged off. The ASU is effective on January 1, 2023 under a prospective approach. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial instruments measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (e.g., loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investment in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, Accounting Standards Codification ("ASC") Topic 326 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 that management does not intend to sell or believes that it is more likely than not they will not be required to sell.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company adopted ASC 326 using the modified retrospective method for all financial instruments measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in a decrease of $476,464 to our Allowance for Credit Losses ("ACL") on loans; an increase of $299,658 to our ACL for unfunded commitments; an increase of $176,806 to our ACL for held-to-maturity securities; and an immaterial impact to the beginning balance of retained earnings.

In March 2023, the FASB issued ASU No. 2023-01, Leases (Topic 842): Common Control Arrangements. This amendment requires entities to amortize leasehold improvements associated with common control lease arrangements over the useful life of the improvements to the common control group, as opposed to the shorter of the remaining lease term and the useful life of the improvements for all other operating leases. The amendments are effective for years beginning after December 15, 2023, and may be adopted either prospectively or retrospectively. Early adoption is permitted for both interim and annual financial statements. We currently do not have common control lease arrangements, and therefore do not anticipate that the amendments will impact our financial condition and results of operations.

In March 2023, the FASB issued ASU No. 2023-02, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structure Using the Proportional Amortization Method. Under current GAAP, an entity can only elect to apply the proportional amortization method to investments in low-income housing tax credit ("LIHTC") structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the consolidated statements of income as a component of income tax expense (benefit). The amendments will allow entities to elect to account for all other equity investments made primarily for the purpose of receiving income tax credits to using the proportional amortization method, regardless of the tax credit program through which the investment earns income tax credits, when certain conditions are met. The amendments are effective for fiscal years beginning after December 15, 2023, and may be adopted either on a modified retrospective basis or retrospectively. As disclosed in Note 4, Securities, we currently have no other equity investments made primarily for the purpose of receiving income tax credits and therefore do not anticipate that the amendments will impact our financial condition and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company finalized the adoption of ASC 326 as of January 1, 2023 as detailed in the following table:

	January 01, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Investments			
Available-for-sale			
U. S. Treasuries	$ -	$ -	$ -
Mortgage-backed securities	-	-	-
CMOs	-	-	-
Municipals - taxable	-	-	-
Municipals - exempt	-	-	-
Held-to-maturity			
Subordinated debt	176,806	-	176,806
Allowance for credit losses on debt securities	$ 176,806	$ -	$ 176,806
Loans			
1-4 Family	$ 29,595	$ 192,051	$ (162,456)
Commercial equipment & assets	301,677	425,316	(123,639)
Commercial	1,093,976	1,164,558	(70,582)
Construction	2,558,736	473,219	2,085,517
Consumer	117,206	2,991	114,215
Farmland	15,716	11,490	4,226
Multifamily	776,248	1,252,337	(476,089)
Non-farm, non-residential real estate	911,929	663,708	248,221
Non-owner occupied real estate	408,023	1,588,826	(1,180,803)
Revolving	199,652	72,704	126,948
Unallocated	-	1,042,022	(1,042,022)
Allowance for credit losses on loans	$ 6,412,758	$ 6,889,222	$ (476,464)
Liabilities:			
Allowance for credit losses on off-balance-sheet credit exposures	$ 462,346	$ 162,688	$ 299,658

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Securities are classified as held-to-maturity when the Company has the ability and positive intent to hold them to maturity. Securities classified as held-to-maturity are carried at cost, adjusted for amortization of premiums to the earliest callable date and accretion of discounts to the maturity date, and, if appropriate, any credit impairment losses. Securities available-for-sale consist of debt securities that the Company has the intent and ability to hold for an indefinite period, but not necessarily to maturity. Securities available-for-sale are reported at fair value. Realized gains and losses on securities available for sale, determined using the specific identification method, are included in results of operations. Amortization of premiums and accretion of discounts are recognized as adjustments to yield over the contractual lives of the related securities, with the exception of premiums for non-contingently callable debt securities which are amortized to the earliest call date, rather than the contractual maturity date. Dividends and interest income are recognized when earned.

A security is placed on non-accrual status at the time and principal and interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. No accrued interest was reversed against interest income for debt securities for the year ended December 31, 2023 and 2022.

Management no longer evaluates securities for other-than-temporary impairment, as ASC Subtopic 326-30 *Financial Instruments – Credit Losses – Available for Sale Debt Securities* changes the accounting for recognizing impairment on available-for-sale and held-to-maturity debt securities. In each reporting period, management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether or not there is a credit loss associated with the decline in fair value. Management considers the nature of the collateral; potential future changes in collateral values; default rates; delinquency rates; third-party guaranties; credit ratings; interest rate changes since purchase; volatility of the security's fair value; and historical loss information for financial assets secured with similar collateral, among other factors. Allowance on credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component is recognized through the Provision for Credit Losses on the Consolidated Statements of Income.

Allowance for Credit Losses on Held-to-Maturity Debt Securities

Management measures expected credit losses on held-to-maturity securities by collective basis, using the probability of default / loss given default ("PD/LGD") method. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers credit ratings and historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Allowance for Credit Losses on Available-for-Sale Debt Securities

For available-for-sale securities in an unrealized loss position, management first assesses whether or not it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost; any changes to the rating of the security by a rating agency; and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is not included in the estimate of credit losses.

Allowance for Credit Losses on Loans

The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed, and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions such as changes in unemployment rates and property values.

Accrued interest receivable is excluded from the estimate of credit losses for loans.

The ACL on loans is measured on a collective (pool) basis when similar risk characteristics exist. The company has identified the following portfolio segments, on which it measures the ACL using the weighted average remaining life to maturity ("WARM") method: 1-4 Family, Commercial equipment, Commercial, Construction, Consumer, Farmland, Multifamily, Non-farm, Non-residential, Non-owner occupied and Revolving.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contractual Term

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

Allowance for Credit Losses on Off-Balance Sheet Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate utilizes the same factors and assumptions as the ACL on loans and is applied at the same collective cohort level.

Loan Modifications to Borrowers Experiencing Financial Difficulty

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring. Loans modified in troubled debt restructurings are generally placed on non-accrual status at the time of restructuring. These loans are returned to accrual status after the borrower demonstrates performance with the modified terms for a sustained period of time (generally six months) and has the capacity to continue to perform in accordance with the modified terms of the restructured debt.

NOTE 3 – CASH AND DUE FROM BANKS

Cash and due from Banks includes balances with the Federal Reserve Bank and other correspondent banks. The Federal Reserve Bank generally requires the Company to maintain a certain minimum balance at all times. The reserve requirements are based on a percentage of the Company's deposit liabilities. The reserve requirement was 0% for the years ended December 31, 2023 and 2022, respectively.

NOTE 4 – SECURITIES

The following tables provides the amortized cost, gross unrealized gains and losses, and estimated fair value of securities.

Investments available-for-sale consist of the following:

	December 31, 2023				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:					
U. S. Treasuries	$ 113,949,764	$ -	$ 8,032	$ (812,484)	$ 113,145,312
Mortgage-backed securities	23,567,293	-	567	(3,030,588)	20,537,272
CMOs	9,321,404	-	-	(1,373,288)	7,948,116
Municipals - taxable	34,574,672	-	38,094	(2,280,967)	32,331,799
Municipals - exempt	3,762,579	-	-	(173,751)	3,588,828
Total Available-for-sale securities	$ 185,175,712	$ -	$ 46,693	$ (7,671,078)	$ 177,551,327

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U. S. Treasuries	$ 143,116,988	$ -	$ (2,136,517)	$ 140,980,471
Mortgage-backed securities	28,935,808	169	(3,751,459)	25,184,518
CMOs	10,450,047	-	(1,513,373)	8,936,674
Municipals - taxable	34,306,678	11,752	(3,384,177)	30,934,253
Municipals - exempt	3,801,289	-	(295,991)	3,505,298
Total Available-for-sale securities	$ 220,610,810	$ 11,921	$ (11,081,517)	$ 209,541,214

NOTE 4 – SECURITIES (CONTINUED)

Investments held-to-maturity consist of the following:

	December 31, 2023				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity securities:					
Subordinated debt	$ 31,500,000	$ (96,090)	$ -	$ (4,747,686)	$ 26,656,224
Total held-to-maturity securities:	$ 31,500,000	$ (96,090)	$ -	$ (4,747,686)	$ 26,656,224

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity securities:				
Subordinated debt	$ 31,500,000	$ -	$ (2,689,022)	$ 28,810,978
Total held-to-maturity securities:	$ 31,500,000	$ -	$ (2,689,022)	$ 28,810,978

The table below presents a roll-forward for the year-ended December 31, 2023 of the allowance for credit losses on debt securities held at period-end:

	Subordinated Debt
Beginning balance, January 1, 2023	$ -
Impact of adopting ASC 326	176,806
Provision on debt securities	
Credit loss (benefit) provision	(80,716)
Securities charged-off	-
Recoveries of amounts previously written off	-
Ending balance, December 31, 2023	$ 96,090

NOTE 4 – SECURITIES (CONTINUED)

Information pertaining to available-for-sale investments with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual investments have been in a continuous loss position, is as follows:

	December 31, 2023					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities						
U. S. Treasuries	$ 14,654,688	$ (57,439)	$ 68,683,596	$ (755,045)	$ 83,338,284	$ (812,484)
Mortgage-backed securities	-	-	20,505,725	(3,030,588)	20,505,725	(3,030,588)
CMOs	-	-	7,948,116	(1,373,288)	7,948,116	(1,373,288)
Municipals - taxable	-	-	28,936,837	(2,280,967)	28,936,837	(2,280,967)
Municipals - exempt	-	-	3,588,828	(173,751)	3,588,828	(173,751)
Total available-for-sale securities	$ 14,654,688	$ (57,439)	$ 129,663,102	$ (7,613,639)	$ 144,317,790	$ (7,671,078)

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities						
U. S. Treasuries	$ 140,980,472	$ (2,136,517)	$ -	$ -	$ 140,980,472	$ (2,136,517)
Mortgage-backed securities	4,622,415	(175,967)	20,525,545	(3,575,492)	25,147,960	(3,751,459)
CMOs	1,739,744	(154,690)	7,196,930	(1,358,683)	8,936,674	(1,513,373)
Municipals - taxable	21,507,312	(1,754,988)	6,092,603	(1,629,189)	27,599,915	(3,384,177)
Municipals - exempt	1,824,008	(57,697)	1,681,289	(238,294)	3,505,297	(295,991)
Total available-for-sale securities	$ 170,673,951	$ (4,279,859)	$ 35,496,367	$ (6,801,658)	$ 206,170,318	$ (11,081,517)

As of December 31, 2023, the majority of the Company's available-for-sale investments are risk-free obligations of U.S. Treasury. The Company does not intend to sell its available-for-sale investments, nor does it anticipate that these investments will be required to be sold, before recovery. The unrealized losses are due to changes in market interest rates or widening of market spreads subsequent to the initial purchase of the investments. The fair value is expected to recover as the investments reach their maturity date or repricing date, or if market yields for such investments decline. The Company does not believe that any of these investment securities are impaired due to reasons of credit quality. The Company assesses the need to sell an investment due to a decline in an issuer's risk rating, and related losses are recognized in earnings. No material credit losses were observed at December 31, 2023.

The Company had no proceeds from the sales of investment securities during the years ended December 31, 2023 and 2022. There were no gross realized gains or losses during 2023 and 2022.

NOTE 4 – SECURITIES (CONTINUED)

Information pertaining to held-to-maturity investments with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual investments have been in a continuous loss position, is as follows:

	December 31, 2023					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities						
Subordinated debt	$ 833,050	$ (166,950)	$ 22,919,264	$ (4,580,736)	$ 23,752,314	$ (4,747,686)
Total held-to-maturity securities	$ 833,050	$ (166,950)	$ 22,919,264	$ (4,580,736)	$ 23,752,314	$ (4,747,686)

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held-to-maturity securities						
Subordinated debt	$ 19,485,008	$ (2,014,992)	$ 5,325,970	$ (674,030)	$ 24,810,978	$ (2,689,022)
Total held-to-maturity securities	$ 19,485,008	$ (2,014,992)	$ 5,325,970	$ (674,030)	$ 24,810,978	$ (2,689,022)

NOTE 4 – SECURITIES (CONTINUED)

The Company's held-to-maturity investments consist of subordinated debt issued by bank holding companies that are exposed to credit risk. These investments generally are not rated by major rating agencies. Management monitors twelve publicly-available financial performance metrics for each of the subordinated debt issuers and regularly reviews those metrics with the Company's Asset Liability Committee. The subordinated debt investments represent 16% and 14% of the investment portfolio as of December 31, 2023 and 2022. The Company has the ability and intent to hold the held-to-maturity investments until they mature, at which time the Company will receive full value for the investments.

At December 31, 2023 and 2022, the investment portfolio included 4 and 82 securities with unrealized loss positions of less than one year, respectively. At December 31, 2023 and 2022, the investment portfolio included 113 and 47 securities with unrealized loss positions that have existed for one year or longer, respectively.

Credit Quality Indicators

The Company monitors the credit quality of available-for-sale investments on a regular basis using credit ratings published by large rating agencies such as Standard & Poor's, Moody's, or Fitch. The table below presents the amortized cost by rating at December 31, 2023:

	December 31, 2023				
	AAA/AA/A	BBB/BB/B	CCC/NA	Unrated	Total
Available-for-sale securities:					
U. S. Treasuries	$ 113,949,764	$ -	$ -	$ -	$ 113,949,764
Mortgage-backed securities	23,567,293	-	-	-	23,567,293
CMOs	9,321,404	-	-	-	9,321,404
Municipals - taxable	34,574,672	-	-	-	34,574,672
Municipals - exempt	3,762,579	-	-	-	3,762,579
Total Available-for-sale securities	$ 185,175,712	$ -	$ -	$ -	$ 185,175,712

The Company's portfolio contains certain securities issued by the U.S. Treasury, Mortgage-Backed Securities (MBS), and Collateralized Mortgage Obligations (CMO) which were not rated by any of the rating agencies. For the purposes of the above table, the Company considers all U.S. Treasury securities to be AAA-rated regardless of whether or not they have a rating from a rating agency. All of the Company's MBS and CMO securities were issued by U.S. Agencies or the Small Business Administration, and the Company considers those securities to be AAA-rated due to the implicit guaranty of those securities by the U.S. government, regardless of whether or not they have a rating from a rating agency.

As of December 31, 2023 and 2022, there were no investments on non-accrual and past due 90 days or more.

NOTE 4 – SECURITIES (CONTINUED)

Investments at December 31, 2023, are contractually scheduled to mature as follows:

	Available-for-sale securities		Held-to-maturity securities	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 84,472,354	$ 84,195,312	$ -	$ -
Due after one year through five years	55,092,780	53,747,119	-	-
Due after five years through ten years	17,217,719	15,155,638	31,500,000	26,656,224
Due after ten years	28,392,859	24,453,258	-	-
	$ 185,175,712	$ 177,551,327	$ 31,500,000	$ 26,656,224

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

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS

The disclosures below reflect changes made in 2023 to conform with the adoption of ASC 326 *Financial Instruments – Credit Losses*, using the modified retrospective approach. Accordingly, the prior period presentation was not modified to conform to the current period presentation.

The following table presents the principal balance of total loans outstanding by portfolio segment and class of loans receivable at December 31, 2023 and 2022:

	2023
1-4 Family	$ 38,722,499
Commercial equipment	12,950,044
Commercial	74,181,493
Construction	55,732,542
Consumer	1,302,965
Farmland	1,414,823
Multifamily	193,699,956
Non-farm, non-residential	92,083,793
Non-owner occupied	200,248,386
Revolving	7,864,730
	678,201,231
Deferred loan fees and costs, net	(1,755,488)
Allowance for credit losses on loan	(6,206,622)
	$ 670,239,121

	2022
Commercial	$ 128,990,626
Commercial real estate	
Non-owner occupied	327,478,131
Owner occupied	113,449,643
Construction and land	51,731,194
Consumer and other	37,886,349
	659,535,943
Deferred loan fees and costs, net	(1,943,717)
Allowance for credit losses on loan	(6,889,222)
	$ 650,703,004

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

Allowance for Credit Losses on Loans

The Company has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses expected in the Company's portfolio. For purposes of determining the allowance for credit losses, the Company segments certain loans in its portfolio by product type.

The following table presents, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans for the years ended December 31, :

For the Year Ended December 31, 2023

	1-4 Family	Commercial Equipment	Commercial	Construction	Consumer	Farmland	Multifamily	Non-Farm Non-Residential	Non-Owner Occupied	Revolving	Unallocated	Total
Allowance for credit losses												
Beginning balance, prior to adoption of ASC 326	$ 192,051	$ 425,316	$ 1,164,558	$ 473,219	$ 2,991	$ 11,490	$ 1,252,337	$ 663,708	$ 1,588,826	$ 72,704	$ 1,042,022	$ 6,889,222
Impact of adopting ASC 326	(162,456)	(123,639)	(70,582)	2,085,517	114,215	4,226	(476,089)	248,221	(1,180,803)	126,948	(1,042,022)	(476,464)
Charge-offs	-	-	(770,646)	(26,099)	-	-	-	-	-	-	-	(796,745)
Recoveries	-	-	45,508	-	-	-	-	-	-	-	-	45,508
Provision (benefit)	99,166	(250,641)	568,975	24,484	(52,941)	-	(28,179)	191,327	11,123	(18,213)	-	545,101
Ending balance	$ 128,761	$ 51,036	$ 937,813	$ 2,557,121	$ 64,265	$ 15,716	$ 748,069	$ 1,103,256	$ 419,146	$ 181,439	$ -	$ 6,206,622

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

For the Year Ended December 31, 2022

		Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses							
Beginning balance		$ 1,742,735	$ 3,318,738	$ 515,525	$ 303,540	$ 400,190	$ 6,280,728
	Charge-offs	(23,389)	-	-	-	-	(23,389)
	Recoveries	231,883	-	-	-	-	231,883
	Provision (benefit)	(395,695)	281,556	(42,306)	(85,387)	641,832	400,000
Ending balance		$ 1,555,534	$ 3,600,294	$ 473,219	$ 218,153	$ 1,042,022	$ 6,889,222
Period-end amount allocated to:							
Loans individually evaluated	for impairment	$ 156,366	$ -	$ -	$ -	$ -	$ 156,366
Loans collectively evaluated	for impairment	1,399,168	3,600,294	473,219	218,153	1,042,022	6,732,856
Ending balance		$ 1,555,534	$ 3,600,294	$ 473,219	$ 218,153	$ 1,042,022	$ 6,889,222
Loans							
Individually evaluated for	impairment	$ 297,281	$ -	$ -	$ -	$ -	$ 297,281
Collectively evaluated for	impairment	128,693,345	440,927,774	51,731,194	37,886,349	-	659,238,662
Ending balance		$ 128,990,626	$ 440,927,774	$ 51,731,194	$ 37,886,349	$ -	$ 659,535,943

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

Credit quality indicators

The Company monitors past-due status for the purpose of managing credit risk for loans. The following tables provide past-due amounts for each class of loan.

	December 31, 2023					
	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
1-4 Family	$ -	$ -	$ -	$ -	$ 38,722,499	$ 38,722,499
Commercial equipment	-	-	7,000,000	7,000,000	5,950,044	12,950,044
Commercial	96,100	-	140,915	237,015	73,944,478	74,181,493
Construction	-	-	-	-	55,732,542	55,732,542
Consumer	-	-	-	-	1,302,965	1,302,965
Farmland	-	-	-	-	1,414,823	1,414,823
Multifamily	-	-	-	-	193,699,956	193,699,956
Non-farm, non-residential	-	-	-	-	92,083,793	92,083,793
Non-owner occupied	-	-	-	-	200,248,386	200,248,386
Revolving	-	-	-	-	7,864,730	7,864,730
Total	$ 96,100	$ -	$ 7,140,915	$ 7,237,015	$670,964,216	$ 678,201,231

	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Commercial	$ 33,841	$ -	$ 297,281	$ 331,122	$128,659,504	$ 128,990,626
Commercial real estate						
Non-owner occupied	-	-	-	-	327,478,131	327,478,131
Owner occupied	-	-	-	-	113,449,643	113,449,643
Construction and land	1,455,991	-	-	1,455,991	50,275,203	51,731,194
Consumer and other	-	-	-	-	37,886,349	37,886,349
Total	$ 1,489,832	$ -	$ 297,281	$ 1,787,113	$657,748,830	$ 659,535,943

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

The Company manages a consistent process for assessing loan credit quality. Loans are subject to individual risk assessments using internal borrower and collateral quality ratings. The Company uses the following risk rating definitions to assign a risk rating to its loans:

Loans are graded on a scale of 1 to 9, with grades 1 to 5 being termed pass loans and grades 6, 7, 8, and 9 being termed special mention, substandard, doubtful, and loss, respectively. A description of the general characteristics of the nine grades is as follows:

Pass and Watch (grades 1-5) **–** These loans generally conform to the Company's underwriting criteria and evidence an acceptable level of credit risk.

Special Mention (grade 6) **–** These loans have weaknesses that require management's close attention. These weaknesses expose the Company to a sufficient degree of risk to warrant classification. If left uncorrected, these weaknesses will result in deterioration of the loan's repayment prospects or the borrower's credit position at a future date. Loans in this category are currently protected, but are potentially weak. The loans may (particularly in the short term) constitute a greater than average credit risk, but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. This is a temporary classification pending identification of improvement or deterioration in the criticized asset.

Substandard (grade 7) **–** Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

Doubtful (grade 8) **–** Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high but because of certain important and reasonably specific pending factors which may work to strengthen (or weaken) the loan, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors that may necessitate a doubtful classification include bankruptcy or liquidation procedures, capital injection, or perfecting liens on additional collateral refinancing plans. The Company considers doubtful to be a temporary classification and will only classify an asset, or portion of an asset, as such when information is not available to conclude as to classification or more clearly define the potential for loss.

Loss (grade 9) **–** Assets classified loss are considered uncollectible and of such little value that their continuance as assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are identified as uncollectible.

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

The Company utilizes an independent third party loan review consultant to review and validate the credit risk program on a periodic basis. Results of these reviews are presented to management and the Company's Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Management has assigned a risk rating to its loans based upon the above criteria, as the table below presents:

Loan Portfolio by Segment, Origination Date, and Risk Rating
December 31, 2023

Origination Year	2023	2022	2021	2020	2019	Prior	Total
1-4 Family by Origination Year							
Pass / Watch	1,653,393	2,611,616	20,215,159	9,951,128	178,361	4,112,842	38,722,499
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total 1-4 Family	$ 1,653,393	$ 2,611,616	$ 20,215,159	$ 9,951,128	$ 178,361	$ 4,112,842	$ 38,722,499
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Equipment by Origination Year							
Pass / Watch	-	-	-	35,625	5,014,295	900,124	5,950,044
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	7,000,000	-	-	-	7,000,000
Total Commercial Equipment	$ -	$ -	$ 7,000,000	$ 35,625	$ 5,014,295	$ 900,124	$ 12,950,044
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial							
Pass / Watch	17,442,761	9,585,850	9,114,011	8,851,363	6,308,549	20,807,486	72,110,020
Special Mention	-	-	-	-	1,421,615	-	1,421,615
Substandard	-	8,950	-	140,915	-	499,993	649,858
Total Commercial	$ 17,442,761	$ 9,594,800	$ 9,114,011	$ 8,992,278	$ 7,730,164	$ 21,307,479	$ 74,181,493
Gross current-period charge-offs	$ -	$ 611,753	$ -	$ -	$ 158,893	$ -	$ 770,646
Construction by Origination Year							
Pass / Watch	8,551,953	23,273,851	10,932,548	9,143,493	-	3,830,697	55,732,542
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Construction	$ 8,551,953	$ 23,273,851	$ 10,932,548	$ 9,143,493	$ -	$ 3,830,697	$ 55,732,542
Gross current-period charge-offs	$ -	$ 26,099	$ -	$ -	$ -	$ -	$ 26,099
Consumer by Origination Year							
Pass / Watch	1,107,683	67,420	64,924	-	62,938	-	1,302,965
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total 1-4 Consumer	$ 1,107,683	$ 67,420	$ 64,924	$ -	$ 62,938	$ -	$ 1,302,965
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

Loan Portfolio by Segment, Origination Date, and Risk Rating
December 31, 2023

	2023	2022	2021	2020	2019	Prior	Total
Farmland by Origination Year							
Pass / Watch	-	-	-	-	-	1,414,823	1,414,823
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Farmland	$ -	$ -	$ -	$ -	$ -	$ 1,414,823	$ 1,414,823
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily by Origination Year							
Pass / Watch	11,229,592	71,227,860	46,477,132	41,344,081	6,121,279	17,300,012	193,699,956
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Multifamily	$ 11,229,592	$ 71,227,860	$ 46,477,132	$ 41,344,081	$ 6,121,279	$ 17,300,012	$ 193,699,956
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-farm, non-residential by Origination Year							
Pass / Watch	21,894,615	13,018,081	22,811,850	4,294,518	7,233,746	22,830,983	92,083,793
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Non-farm, non-residential	$ 21,894,615	$ 13,018,081	$ 22,811,850	$ 4,294,518	$ 7,233,746	$ 22,830,983	$ 92,083,793
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-owner occupied by Origination Year							
Pass / Watch	22,419,329	81,267,959	27,880,510	8,197,676	11,622,420	46,896,278	198,284,172
Special Mention	-	-	-	-	-	1,964,214	1,964,214
Substandard	-	-	-	-	-	-	-
Total Non-owner occupied	$ 22,419,329	$ 81,267,959	$ 27,880,510	$ 8,197,676	$ 11,622,420	$ 48,860,492	$ 200,248,386
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Revolving by Origination Year							
Pass / Watch	1,799,870	1,877,874	2,684,905	702,284	-	799,797	7,864,730
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Revolving	$ 1,799,870	$ 1,877,874	$ 2,684,905	$ 702,284	$ -	$ 799,797	$ 7,864,730
Gross current-period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Loans by Origination Year							
Pass / Watch	86,099,196	202,930,511	140,181,039	82,520,168	36,541,588	118,893,042	667,165,544
Special Mention	-	-	-	-	1,421,615	1,964,214	3,385,829
Substandard	-	8,950	7,000,000	140,915	-	499,993	7,649,858
Total Loans	$ 86,099,196	$ 202,939,461	$ 147,181,039	$ 82,661,083	$ 37,963,203	$ 121,357,249	$ 678,201,231
Total Gross current-period charge-offs	$ -	$ 637,852	$ -	$ -	$ 158,893	$ -	$ 796,745

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 118,938,623	$ 9,254,729	$ 797,274	$ -	$ 128,990,626
Commercial real estate					
Non-owner occupied	325,360,208	2,117,923	-	-	327,478,131
Owner occupied	113,449,643		-	-	113,449,643
Construction and land	51,731,194	-	-	-	51,731,194
Consumer and other	37,886,349	-	-	-	37,886,349
Total	$ 647,366,017	$ 11,372,652	$ 797,274	$ -	$ 659,535,943

Non-accrual loans

The following table presents the amortized cost basis of loan on non-accrual status:

	December 31, 2023			
	Non-accrual with no Allowance for Credit Losses	Non-accrual with Allowance for Credit Losses	Total Non-Accrual	Loans Past Due Over 89 Days Still Accruing
1-4 Family	$ -	$ -	$ -	$ -
Commercial equipment	7,000,000	-	7,000,000	-
Commercial	140,915	-	140,915	-
Construction	-	-	-	-
Consumer	-	-	-	-
Farmland	-	-	-	-
Multifamily	-	-	-	-
Non-farm, non-residential	-	-	-	-
Non-owner occupied	-	-	-	-
Revolving	-	-	-	-
	$ 7,140,915	$ -	$ 7,140,915	$ -

	December 31, 2022			
	Non-accrual with no Allowance for Credit Losses	Non-accrual with Allowance for Credit Losses	Total Non-Accrual	Loans Past Due Over 89 Days Still Accruing
Commercial	$ 297,281	$ -	$ 297,281	$ -
Commercial real estate				
Non-owner occupied	-	-	-	-
Owner occupied	-	-	-	-
Construction and land	-	-	-	-
Consumer and other	-	-	-	-
	$ 297,281	$ -	$ 297,281	$ -

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

If interest on non-accrual loans had been accrued at their original rates, such interest would have amounted to $632,997 and $5,271 during 2023 and 2022, respectively.

The following table presents the amortized cost basis of collateral dependent loans by class of loans as of December 31, 2023:

	Commercial Real Estate	Residential Real Estate	Land	Total
1-4 Family	$ -	$ -	$ -	$ -
Commercial equipment	-	7,000,000	-	7,000,000
Commercial	-	140,915	-	140,915
Construction	-	-	-	-
Consumer	-	-	-	-
Farmland	-	-	-	-
Multifamily	-	-	-	-
Non-farm, non-residential	-	-	-	-
Non-owner occupied	-	-	-	-
Revolving	-	-	-	-
	$ -	$ 7,140,915	$ -	$ 7,140,915

Loan modification

The Company may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-signification payment delay, term extensions, interest rate modifications, or combinations of the above.

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

Upon the Company's determination that a modified loan (or portion of a loan) has been subsequently deemed uncollectible, the loan (or portion of a loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

The Company had no loans to customers where loan terms were modified in troubled debt restructuring as of December 31, 2023.

The following table summarizes loans to customers whose loan terms were modified in troubled debt restructurings as of the year ended December 31, 2022 :

	December 31, 2022		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 123,209	$ 123,209
	1	$ 123,209	$ 123,209

The above loan was modified and considered a troubled debt restructurings because specific interest rate concessions or payment term concessions were granted to the borrower. The Company had no obligations to lend additional funds on the restructured loan as of December 31, 2023 and 2022.

There were no troubled debt restructurings in 2023 and 2022 that subsequently defaulted within twelve months.

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

Salaries and employee benefits totaling $590,016 and $663,388 have been deferred as loan origination costs for the years ended December 31, 2023 and 2022, respectively.

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, and concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower.

The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

NOTE 5 – LOANS AND THE ALLOWANCE FOR CREDIT LOSSES ON LOANS (CONTINUED)

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project.

Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Consumer loans primarily consist of home equity lines of credit and loans and other personal loans. The Company originates consumer loans utilizing credit history information, debt-to-income ratio, and loan-to-value ratio analysis. The Company also evaluates the consumer's liquid assets and their ability to supplement cash flow for debt payment. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed.

This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home equity loans include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements. Personal loans are nearly evenly split between mobile home loans along with a small number of direct auto loans and installment loans. Personal unsecured loans are offered to consumers with additional underwriting procedures in place, including net worth and borrower's verified liquid assets analysis. In general, personal loans usually have a higher degree of risk than other types of loans.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2023	2022
Leasehold improvements	$ 850,959	$ 651,412
Furniture, fixtures, and equipment	2,202,966	1,952,512
	3,053,925	2,603,924
Less accumulated depreciation and amortization	(1,908,999)	(1,558,413)
	$ 1,144,926	$ 1,045,511

Depreciation and amortization included in occupancy and equipment expense totaled $350,586 and $370,147 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 – LEASES

The Company leases certain facilities where it conducts its operations on a month-to-month basis. The Company has entered into term leases for its Danville, San Mateo, San Jose, and Oakland locations. The Company is responsible for common area maintenance, taxes, and insurance to the extent these exceed the base year amounts. The leases expire between April 2024 and October 2028.

Right-of-use assets and lease liabilities are $2,233,477 and $2,285,205, respectively, as of December 31, 2023 and $848,506 and $824,208 respectively, as of December 31, 2022. The leases are considered operating leases and are included in interest receivable and other assets and interest payable and other liabilities on the consolidated balance sheet. The Company had two short-term leases which are San Francisco and Oakland as of December 31, 2023. The Company had no finance leases or short-term leases as of December 31, 2022.

The right-of-use asset represents our right to use an underlying asset during the lease term. Operating lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized based on the present value of the remaining lease payments using a discount rate that represents our incremental borrowing rate at the date of implementation of the new accounting standard.

One of the operating leases has a two 5-year extension options at the then fair market value. As these extension options are not reasonably certain of exercise, they are not included in the lease term.

The minimum rental payments shown below are given for the existing lease obligations and are not a forecast of future rental expense. The Company recognized rent expense of $941,321 and $682,270 for the years ended December 31, 2023 and 2022, respectively. Rent expense is included in occupancy and equipment expense on the consolidated statements of income.

NOTE 7 – LEASES (CONTINUED)

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

	Payments
2024	$ 686,991
2025	551,975
2026	577,339
2027	471,833
2028	345,152
Total undiscounted lease payments	2,633,290
Less: imputed interest	(348,085)
Net lease liabilities	$ 2,285,205

Additional information regarding our operating leases is summarized below for the year ended December 31, 2023 and 2022:

Cash paid for amounts included in the measurement of lease liabilities for operating leases	$ 730,081	$ 644,837
Weighted average remaining lease term in months	51	21
Weighted average discount rate	3.92%	2.58%

NOTE 8 – INTEREST RECEIVABLE AND OTHER ASSETS

Interest receivable and other assets are as follows:

	December 31, 2023	December 31, 2022
Deferred tax asset, net	$ 5,005,003	$ 5,916,447
Interest receivable -- securities	1,482,650	1,550,949
Interest and fees receivable -- loans	2,295,238	2,054,109
Prepaid expenses and other assets	4,698,382	2,328,144
Principal and interest receivable on matured AFS investments	5,187,500	-
Preferred stock	3,000,000	3,000,000
FHLB Stock	5,283,800	3,279,500
	$ 26,952,573	$ 18,129,149

In 2022, the Company purchased 3,000 shares of Fixed Rate Noncumulative Preferred Stock issued by a registered bank holding company in a private placement offering at an offering price of $1,000.00 per share. The preferred stock has a liquidation preference to the common stock of the issuer, and pays a quarterly dividend at a rate per annum equal to six percent (6.0%). The preferred stock may be redeemed by the issuer at the issuer's option beginning on the fifth anniversary of the issuance of the preferred stock, but is not subject to any mandatory redemption, sinking fund, or other similar provisions. The preferred stock does not have a readily determinable fair value and is carried at amortized cost of $3,000,000, at both December 31, 2023 and 2022, respectively. Management assesses for impairment as of each financial reporting date and determined that no impairment was needed.

NOTE 9 – DEPOSITS

Customer deposits consisted of the following:

	December 31, 2023	December 31, 2022
Demand	$ 176,515,708	$ 203,013,091
NOW accounts	70,016,656	67,881,689
Money market	170,209,014	277,540,398
Savings	9,105,147	9,859,195
Time, under $250,000	140,695,247	70,589,441
Time, $250,000 or more	67,324,606	77,023,467
	$ 633,866,378	$ 705,907,281

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2024	$ 151,147,557
2025	17,702,036
2026	7,554,070
2027	18,376,554
2028	136,636
Thereafter	13,103,000
	$ 208,019,853

Interest expense related to interest-bearing deposits consisted of the following:

	Years Ended December 31, 2023	Years Ended December 31, 2022
NOW accounts	$ 454,561	$ 148,208
Money market	5,461,811	2,046,928
Savings	48,219	21,427
Time	7,053,444	1,802,410
	$ 13,018,035	$ 4,018,973

NOTE 10 – FHLB ADVANCES AND LINES OF CREDIT

FHLB Advances

During 2006, the Company entered into an arrangement with the FHLB under which it may borrow, on either a short-term or long-term basis, investments pledged up to 25% of its assets provided that adequate collateral has been pledged. The total investments pledged as of December 31, 2023 and 2022 was $100,724,516 and $141,063,000, respectively. There was $97,454,551 and $136,831,110 of borrowing capacity available related to pledged investment securities at December 31, 2023 and 2022, respectively. Loans with an unpaid principal balance of $253,904,891 and $165,754,862 were pledged at December 31, 2023 and 2022, respectively. Collateralized borrowing capacity at the FHLB was $232,688,211 and $252,558,202 as of December 31, 2023 and 2022, respectively.

The Company utilized $20,138,954 and $53,000,000 of its collateralized borrowing capacity for Letters of Credit at December 31, 2023 and 2022, respectively, and had $140,000,000 and $74,500,000 outstanding borrowings from the FHLB as of December 31, 2023 and 2022, respectively. Net remaining borrowing capacity at the FHLB was $72,549,257 and $125,058,202 as of December 31, 2023 and 2022, respectively.

Annual maturities and interest rates of FHLB advances are as follows:

Years Ending December 31,	Rate (%)	Current Par ($)
2024	2.0700	$ 10,000,000
2026	4.6600	30,000,000
2028	4.0200	100,000,000
		$ 140,000,000

Lines of Credit

The Company has three unsecured available lines of credit totaling $39,000,000 with three of its correspondent banks. There were no borrowings outstanding under these arrangements at December 31, 2023 and 2022, respectively.

NOTE 11 – INCOME TAXES

Income tax expense for the years ended December 31, 2023 and 2022, consists of the following:

	2023	2022
Current		
Federal	$ 2,103,132	$ 2,511,886
State	1,347,728	1,395,029
	3,450,860	3,906,915
Deferred		
Federal	(29,615)	(370,248)
State	(67,655)	(155,131)
	(97,270)	(525,379)
Income tax expense	$ 3,353,590	$ 3,381,536

Reconciliation of the provision for income tax expense based on the federal statutory income tax rate to actual income tax expense is provided as follows:

	2023		2022	
	Amount	Percent	Amount	Percent
Tax at statutory rate	$ 2,433,365	21%	$ 2,403,005	21%
State income tax	1,011,258	9%	979,519	9%
Bank owned life insurance	(45,287)	-1%	(43,218)	0%
Equity compensation	(14,151)	0%	(93,307)	-1%
Other	(31,595)	0%	135,537	1%
	$ 3,353,590	29%	$ 3,381,536	30%

NOTE 11 – INCOME TAXES (CONTINUED)

Deferred tax assets (liabilities) are comprised of the following:

	2023	2022
Deferred tax assets		
Net operating loss carryforwards	$ 15,024	$ 30,047
Allowance for loan losses	1,995,936	2,028,166
Right-to-use lease liability	675,589	243,665
Unrealized losses on available-for-sale investment securities	2,256,817	3,265,531
Nonaccrual loan interest	-	20,002
Stock based compensation	331,823	333,169
State income tax	223,365	247,239
Other	783,851	643,353
Total deferred tax assets	6,282,405	6,811,172
Deferred tax liabilities		
Depreciation on premises and equipment	(236,111)	(226,226)
Deferred loan costs	(314,901)	(320,620)
Right-to-use lease asset	(660,296)	(250,849)
Other	(66,094)	(97,030)
	(1,277,402)	(894,725)
Net deferred income tax asset	$ 5,005,003	$ 5,916,447

The Company files a consolidated tax return in the U.S. federal tax jurisdiction and a combined report in the state of California tax jurisdiction.

The tax benefit of net operating losses ("NOL"), temporary differences, and credit carryforwards are recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. During the years ended December 31, 2023 and 2022, the valuation allowance remained at $0.

The Company has usable net operating loss carryforwards of approximately $71,541 for federal tax reporting purposes. Remaining unusable net operating losses will expire in 2024. The Tax Reform Act of 1986 and the California Conformity Act of 1987 imposes substantial restrictions on the utilization of net operating loss carryforwards when an "ownership change," as defined in the Internal Revenue Code, has occurred. Some of the Company's federal and state net operating losses have each been limited to usage of approximately $71,500 annually due to ownership changes.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, makes loans to and received deposits from its directors, officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company.

The Company's related party loans are summarized below:

	December 31,	
	2023	2022
Aggregate amount outstanding, beginning of year	$ 108,428	$ 3,307,620
New loans, advances, or additions during year	-	750,000
Repayments during year	(47,062)	(3,949,192)
Aggregate amount outstanding, end of year	$ 61,366	$ 108,428
Unused loan commitments	$ 1,400,000	$ 1,400,000

Related party deposits amounted to $13,418,426 and $14,131,316 as of December 31, 2023 and 2022, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the balance sheets.

At December 31, 2023 and 2022, the Company had commitments to extend credit of $134,851,375 and $150,809,753, respectively. There were no standby letters of credit issued at December 31, 2023 and 2022, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance or financial obligation of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Contingencies

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Company.

NOTE 14 – NON-INTEREST INCOME AND REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income. Revenues that fall within the scope of ASC 606 include service charges and fee income and revenue from various sources included in other income. Certain non-interest income streams such as government grants and fees associated with SBA servicing rights are not within the scope of the new guidance.

The Company earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs, and the fees are recognized at the time each specific service is provided to the customer. Premiums on the sale of loans are recognized when the loan is sold, and performance obligation is complete. Other income includes income from various sources and is recognized when the performance obligation is complete.

Non-interest income consisted of the following for the years ended December 31:

	2023	2022
Government grants	$ 2,916,189	$ 170,699
Change in cash surrender value of BOLI	215,654	205,802
Service charges	224,203	211,914
FHLB dividend	331,077	166,647
Loan document and packaging fees	121,700	130,800
SBA servicing income	47,900	43,060
Other	71,344	89,439
Gain on sale of loans	238,330	-
Total non-interest income	$ 4,166,397	$ 1,018,361

NOTE 15 – GOVERNMENT GRANTS

The Company was awarded $2,916,189 and $170,699 in 2023 and 2022, respectively, by the United States Treasury Department in recognition of its community development activities under the Bank Enterprise Award ("BEA") and Community Development Financial Institutions Rapid Response ("RRP") Programs. Management believes that the Company has complied, in all material aspects, with all of the covenants and requirements under the BEA and RRP agreements and that it is not, and has not been, in default with any of the terms, requirements, or minimum levels of qualified activities of such agreements.

The Company recognizes awards as income in the year funds are received from the United States Treasury, provided that the minimum level of qualified activities has been met in that year. Should the minimum level of qualified activities not be met in the same year as funds are received, the

NOTE 15 – GOVERNMENT GRANTS (CONTINUED)

Company will accrete the award into income on a pro rata basis consistent with the level of qualified activities met in any given year covered by the award period.

NOTE 16 – OTHER EXPENSES

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

	2023	2022
Data processing	$ 2,822,944	$ 2,332,073
Professional fees	1,121,492	810,984
Advertising	526,319	441,998
Regulatory assessments	505,147	311,837
Loan related expenses	276,983	289,424
Donations	177,114	194,485
Title company deposit expenses	132,500	162,500
Insurance	144,550	145,593
Sundry losses	326,478	9,349
Other operating expenses	1,552,977	963,126
Total other expenses	$ 7,586,504	$ 5,661,369

NOTE 17 – EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Company adopted a 401(k) defined contribution plan effective January 1, 1997. All employees of the Company may participate in the plan upon completion of certain eligibility requirements. The Company matches employee's contributions on a discretionary basis. The Company made contributions of $375,685 and $273,415 for the years ended December 31, 2023 and 2022, respectively.

NOTE 18 – OTHER POST-RETIREMENT BENEFIT PLANS

During 2019, the Bank established a non-qualified deferred compensation plan for directors and certain officers of the Bank. Participants in the non-qualified deferred compensation plan may elect to defer a portion of their compensation to future periods. Participants in the non-qualified plan are fully vested in contributions made and any earnings generated as a result of their contributions. At December 31, 2023 and 2022, the participants in the non-qualified plan have deferred $332,686 and $167,885, respectively.

During 2020, the Bank awarded an executive officer a salary continuation plan. Under the plan, the participant will be provided with a fixed annual retirement benefit for 10 years after retirement. The Bank is also responsible for certain pre-retirement death benefits under the plan. The participant

NOTE 18 – OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

vests in the benefit over a ten year period, with no vesting occurring until the completion of the fifth year of the plan. As of December 31, 2023 and 2022, a salary continuation liability of $265,143 and $206,141, respectively, had been accrued by the Bank. The salary continuation liability is reflected in interest payable and other liabilities on the Company's consolidated balance sheet. Expense recognized under these plans totaled $59,002 and $55,852 for the years ended December 31, 2023 and 2022, respectively.

In conjunction with the salary continuation plan, the Bank has purchased various life insurance policies of which the Bank is the owner and beneficiary. The policies are designed to offset the Bank's obligations associated with the salary continuation plan. However, the cash surrender values of the various life insurance policies represent assets of the Bank and the Bank's obligations may be satisfied using the general assets of the Bank.

NOTE 19 – SHAREHOLDERS' EQUITY

Dividend Restrictions

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code provides that, unless the Company receives prior approval from the California Commissioner of Financial Institutions, the total amount of dividend payments a California state-chartered Company can make in any calendar year cannot exceed the lesser of: (1) the Company's retained earnings or (2) the Company's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period.

Cash dividends paid to shareholders were $1,706,366 and $1,531,439 in 2023 and 2022, respectively.

Share Repurchases

During 2023, the Company repurchased 206,750 shares of Series A Voting Common Stock at an average purchase price of $7.55 per share.

During 2022, the Company repurchased 284,000 shares of Series A Voting Common Stock at an average purchase price of $8.09 per share in privately-negotiated transactions with two investors.

Earnings per Share

Earnings per share ("EPS") is calculated based on the weighted average common shares outstanding during the period. Basic EPS excludes dilution and is calculated by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

	Year Ended December 31, 2023		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 8,233,860	8,724,681	$ 0.94
Effect of dilutive securities:			
Stock options		152,075	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 8,233,860	8,876,756	$ 0.93

	Year Ended December 31, 2022		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 8,061,347	8,772,170	$ 0.92
Effect of dilutive securities:			
Stock options		255,474	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 8,061,347	9,027,644	$ 0.89

Stock Option Plan

The Community Bank of the Bay 2012 Stock Option Plan expired during 2022, and no grants were made under that plan for the year ended December 31, 2022.

During 2022, the Board of Directors and shareholders approved the adoption of the Bay Community Bancorp 2022 Equity Incentive Plan. The plan includes both non-statutory stock options, which may be granted to directors, employees, and consultants, and incentive stock options, which may be granted to employees. The price of non-statutory and incentive stock options may not be less than 100%, respectively, of the fair market value of the common stock on the date of the grant.

However, if an individual at the time of the grant owns stock representing more than 10% of the voting rights of all classes of the stock, then the price of the stock options may not be less than 110% of the fair market value of the common stock on the date of the grant. The term of stock options is determined by the Board of Directors, but may not exceed ten years from the date of the grant unless,

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

in the case of an incentive stock option, an individual at the time of grant owns stock representing more than 10% of the voting rights of all classes of the stock, then the maximum term is five years. Shares of the Company's common stock reserved under the plans amounted to 1,473,690 and 1,544,260 as of December 31, 2023 and 2022, respectively.

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

The following weighted-average assumptions were used for grants in 2023: dividend yield of 2.63%; expected volatility of 25.07%; risk-free interest rate of 4.28%; and expected options term of ten years.

The following weighted-average assumptions were used for grants in 2022: dividend yield of 2.12%; expected volatility of 30.14%; risk-free interest rate of 3.69%; and expected options terms of ten years.

Phantom Stock Incentive Compensation

During 2023, the Company granted units of phantom stock to certain of its Bank employees as a means of incentive compensation. The units of phantom stock vest ratably over a five-year period with 20% vesting on the first anniversary date of grant, then 1.67% each month thereafter, provided the participant is still employed by the Bank on that date, until the units are fully vested. The value of the units is based on changes in the market value of the Company's stock from the date of the initial grant to the measurement date. The market value of the Company stock is determined by the closing price of the Company's Series A Common Stock on the OTC Market Pink Sheets, and the value of the units of phantom stock is updated quarterly.

Phantom stock units do not expire as long as the participant is employed by the Bank. Participants may elect to liquidate all phantom stock units that are vested only upon termination of employment with the Bank. Upon liquidation, the payment to be made by the Bank to the participant shall be equal to the number of vested units to be exercised, multiplied by a sum equal to the difference between the market value of Company stock as of the termination date and the unit exercise price. If the market value of the Company is less than the phantom unit exercise price, no compensation is owed to the participant.

In the event of a change of control of the Bank or the Company, and provided the participant is still an employee of the Bank at the time of the change in control, all unvested phantom stock units shall become fully vested concurrent to the closing of the change of control and each participant will receive a cash payment equal to the number of vested units held by the participant, multiplied by the sales value per unit less the aggregate unit book value per unit on the date of the grant. The sales value per unit shall be the value of the Bank or Company determined at the closing of the change in control, taking into account the total consideration to be received by the Bank or Company, reduced by the liquidation preference and accrued dividends with respect to outstanding shares of preferred stock of the Bank, if any.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

The payment of benefits for liquidation of phantom stock will be made as part of the Bank's regular operations. Accordingly, no assets have been set aside for satisfaction of the liability relating to vested units. As of December 31, 2023, the Company had issued 142,500 units of phantom stock at a weighted average exercise price of $8.81 per unit. Of the 142,500 units outstanding, 24,542 were vested at December 31, 2023. The Bank has recorded no compensation expense for phantom stock as of December 31, 2023. There was $5,000 of unrecognized compensation expense related to the Company's unvested phantom stock as of December 31, 2023.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2023:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	726,708	$ 6.24
Granted	105,000	$ 8.93
Exercised	(42,500)	$ 4.14
Forfeited / canceled / expired	(11,666)	$ 6.36
Outstanding at end of period	777,542	$ 6.72

The following table summarizes information about stock options outstanding at December 31, 2022:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	914,958	$ 5.40
Granted	37,500	$ 8.50
Exercised	(140,000)	$ 3.00
Forfeited / canceled / expired	(85,750)	$ 3.48
Outstanding at end of period	726,708	$ 6.24

The Company recognized $277,591 and $332,021 in stock option expense for the years ended December 31, 2023 and 2022, respectively. There is approximately $399,962 and $370,389 in unrecognized compensation cost for stock options remaining as of December 31, 2023 and 2022, respectively, which is expected to be recognized over a weighted-average period of 3.40 and 3.16 years, respectively.

The Company had 418,542 and 321,542 incentive stock options and 359,000 and 405,166 non-statutory stock options outstanding as of December 31, 2023 and 2022, respectively.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

A summary of options outstanding follows:

	Year Ended December 31,	
	2023	2022
Weighted-average fair value of options granted during the year	$ 1.95	$ 2.86
Intrinsic value of options exercised	$ 168,019	$ 869,850
Options exercisable at year end	605,998	586,664
Weighted-average exercise price	$ 6.23	$ 5.85
Intrinsic value	$ 929,981	$ 1,845,356
Weighted-average remaining contractual life	3.95 Years	4.36 Years
Options outstanding at year end	777,542	726,708
Weighted-average exercise price	$ 6.72	$ 6.24
Intrinsic value	$ 936,014	$ 2,003,372
Weighted-average remaining contractual life	4.98 Years	5.12 Years

The Company may also grant restricted stock units under the plan. Restricted shares generally vest over three to five years for grantees. Shares issued as a result of vesting of restricted stock unit awards are funded from the reserve of common stock discussed above.

The Company has outstanding restricted stock granted from various plans at December 31, 2023. The Company recognized $158,376 and $0 in stock-based compensation related to these stock awards for the years ended December 31, 2023 and 2022, respectively. Unrecognized compensation cost related to restricted stock units totaled $272,697 at December 31, 2023, and will be recognized over 2.89 years on a weighted average basis. The following table summarizes information for unvested restricted stock units outstanding as of December 31, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2023	-	$ -
Granted	59,027	$ 8.59
Vested	(14,485)	$ 8.81
Forfeited	-	$ -
Unvested at December 31, 2023	44,542	$ 8.51

NOTE 20 – REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1, Total, and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all capital adequacy requirements to which it is subject as of December 31, 2023 and 2022.

Effective January 1, 2020, the federal banking agencies jointly issued a final rule on the Community Bank Leverage Ratio ("CBLR"), which provides for an optional, simplified measure of capital adequacy for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"). Qualifying community banking organizations are defined as having less than $10 billion in total consolidated assets and that meet the following risk-based qualifying criteria: a CBLR of greater than nine (9) percent; off-balance sheet exposure of twenty-five (25) percent or less of total consolidated assets; and not an advanced-approaches institution. Such a community banking organization would not be subject to other risk-based and leverage capital requirements (including the Basel III and Basel IV requirements), and would be considered to have met the "well-capitalized" ratio requirements. The CBLR is determined by dividing a financial institution's tangible equity capital by its average total consolidated assets. The rule further describes what is included in tangible equity capital and average total consolidated assets. Qualifying banks may opt into and out of the CBLR framework at any time. While the Company is a qualifying community banking organization, it has not opted into the CBLR framework at this time.

To be categorized as well-capitalized, banks must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. The Company's and the Bank's actual capital amounts and ratios are presented in the table below:

NOTE 20 – REGULATORY MATTERS (CONTINUED)

	Actual		For Capital Adequacy Purposes		To be well Capitalized under PCA	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023:						
Company						
Tier 1 capital (to risk-weighted assets)	$ 198,084,000	27.75%	$ 42,833,400	≥ 6.0%	N / A	N / A
Common equity Tier 1 (to risk-weighted assets)	$ 78,671,000	11.02%	$ 32,125,050	≥ 4.5%	N / A	N / A
Total risk-based capital (to risk-weighted assets)	$ 204,836,000	28.69%	$ 57,111,200	≥ 8.0%	N / A	N / A
Tier 1 capital (to average assets)	$ 198,084,000	18.97%	$ 41,759,600	≥ 4.0%	N / A	N / A
December 31, 2023:						
Bank						
Tier 1 capital (to risk-weighted assets)	$ 196,380,000	27.51%	$ 42,833,400	≥ 6.0%	$ 57,111,200	≥ 8.0%
Common equity Tier 1 (to risk-weighted assets)	$ 76,967,000	10.78%	$ 32,125,050	≥ 4.5%	$ 46,402,850	≥ 6.5%
Total risk-based capital (to risk-weighted assets)	$ 203,132,000	28.45%	$ 57,111,200	≥ 8.0%	$ 71,389,000	≥ 10.0%
Tier 1 capital (to average assets)	$ 196,380,000	18.81%	$ 41,759,600	≥ 4.0%	$ 52,199,500	≥ 5.0%
December 31, 2022:						
Company						
Tier 1 capital (to risk-weighted assets)	$ 192,509,000	25.34%	$ 45,584,880	≥ 6.0%	N / A	N / A
Common equity Tier 1 (to risk-weighted assets)	$ 73,096,000	9.62%	$ 34,188,660	≥ 4.5%	N / A	N / A
Total risk-based capital (to risk-weighted assets)	$ 199,561,000	26.27%	$ 60,779,840	≥ 8.0%	N / A	N / A
Tier 1 capital (to average assets)	$ 192,509,000	19.38%	$ 39,727,000	≥ 4.0%	N / A	N / A
December 31, 2022:						
Bank						
Tier 1 capital (to risk-weighted assets)	$ 191,272,000	25.18%	$ 45,584,880	≥ 6.0%	$ 60,779,840	≥ 8.0%
Common equity Tier 1 (to risk-weighted assets)	$ 71,859,000	9.46%	$ 34,188,660	≥ 4.5%	$ 49,383,620	≥ 6.5%
Total risk-based capital (to risk-weighted assets)	$ 198,324,000	26.10%	$ 60,779,840	≥ 8.0%	$ 75,974,800	≥ 10.0%
Tier 1 capital (to average assets)	$ 191,272,000	19.26%	$ 39,727,000	≥ 4.0%	$ 49,658,750	≥ 5.0%

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are management's estimates of the values at which instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

The estimated fair values of the Company's financial instruments as of December 31 are approximately as follows:

		2023		2022	
	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	Level 1	$ 49,806,630	$ 49,806,630	$ 39,988,762	$ 39,988,762
Interest bearing deposits in banks	Level 2	9,926,419	9,288,213	11,165,350	11,073,427
Securities					
Available-for-sale	Level 2	177,551,327	177,551,327	209,541,214	209,541,214
Held to maturity	Level 3	31,403,910	26,656,224	31,500,000	28,810,978
FHLB stock	Level 2	5,283,800	5,283,800	3,279,500	3,279,500
Loans, net	Level 3	670,239,121	636,419,804	650,703,004	626,238,979
Interest receivable	Level 2	3,777,888	3,777,888	3,605,058	3,605,058
Financial liabilities:					
Non-maturity deposits	Level 2	425,846,525	425,846,525	558,294,373	558,294,373
Time deposits	Level 2	208,019,853	235,195,614	147,612,908	150,850,825
Other borrowings	Level 2	140,000,000	139,144,824	74,500,000	75,035,939
Interest payable	Level 2	2,118,409	2,118,409	356,023	356,023
Off-balance-sheet liabilities:					
Undisbursed loan commitments	Level 3	1,348,514	983,192	1,508,098	1,099,543

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022. These tables indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Description of Assets	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U. S. Treasuries	$ 113,145,312	$ -	$ 113,145,312	$ -
Mortgage-backed securities	20,537,272	-	20,537,272	-
CMOs	7,948,116	-	7,948,116	-
Municipals - taxable	32,331,799	-	32,331,799	-
Municipals - exempt	3,588,828	-	3,588,828	-
Total	$ 177,551,327	$ -	$ 177,551,327	$ -

Description of Assets	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U. S. Treasuries	$ 140,980,471	$ -	$ 140,980,471	$ -
Mortgage-backed securities	25,184,518	-	25,184,518	-
CMOs	8,936,674	-	8,936,674	-
Municipals - taxable	30,934,253	-	30,934,253	-
Municipals - exempt	3,505,298	-	3,505,298	-
Total	$ 209,541,214	$ -	$ 209,541,214	$ -

Transfers between levels in the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds to the Company's quarterly valuation process.

Fair value measurements for impaired loans are based on either collateral values supported by appraisals or observed market prices. Any loss recognized on impaired loans is not recorded directly as an adjustment to current earnings but rather as an adjustment component in determining the overall adequacy of the allowance for loan losses. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents

For short-term instruments, including cash and due from banks, the carrying amount is a reasonable estimate of fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest-Bearing Deposits in Banks

Represents time deposits held at other financial institutions. The fair values are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities.

Securities

Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as a matrix or model pricing, when market quotes are not readily accessible or available.

FHLB Stock

For FHLB stock the carrying amount is a reasonable estimate of fair value.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of interest receivable approximates its fair value. The Company's allowance for loan and lease losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for the quality of certain loans in the portfolio.

Interest Receivable and Payable

For interest receivable and payable, the carrying amount is estimated to be the fair value.

Impaired Loans

Certain financial assets may be measured at fair value on a non-recurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets, such as analyzed loans that are collateral dependent and other real estate owned ("OREO")

The Company utilizes current appraisals and applies discount factors estimated and modeled for consistency by management to arrive at the estimate of fair value for all collateral dependent loans.

Deposit Liabilities

The fair values disclosed for non-maturity deposits (e.g., interest and non-interest checking, statement savings, and money market accounts) are, by definition, equal to the amount payable at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of interest payable approximates its fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Other Borrowings

The fair value of the borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument.

NOTE 22 – EMERGENCY CAPITAL INVESTMENT PROGRAM

On December 14, 2021, the U.S. Department of the Treasury ("Treasury") announced the deployment of approximately $9 billion in investments through the Emergency Capital Investment Program ("ECIP") to increase lending to small and minority-owned businesses and low-and moderate-income consumers in underserved communities. ECIP enables the Treasury to make direct investments in banks, credit unions, and holding companies that are designated as a Community Development Financial Institution ("CDFI") or a Minority Depository Institution ("MDI").

The Company's wholly-owned subsidiary, Community Bank of the Bay, is a CDFI, was offered an ECIP investment by the Treasury. On June 7, 2022, the Company completed a $119.4 million investment from the US Treasury Department. The Company's $119.4 million investment from the US Treasury Department was in the form of a non-cumulative Senior Perpetual Preferred Stock. For the first two years from the date of issuance of the Senior Perpetual Preferred Stock the dividend rate shall be zero percent (0%) per annum, and thereafter dividend payments begin accruing with a maximum dividend rate of two percent (2%) and the dividend rate may be reduced to one half percent (0.5%) based on the level of increased qualified lending undertaken by the Bank.

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

The following are the condensed financial statements of Bay Community Bancorp and should be read in conjunction with the consolidated financial statements.

BAY COMMUNITY BANCORP – (PARENT ONLY)
BALANCE SHEETS

ASSETS

	2023	2022
ASSETS:		
Cash and cash equivalents	$ 1,321,503	$ 946,151
Investment in bank subsidiary	71,744,172	64,195,784
Interest receivable and other assets	383,413	293,681
Total assets	$ 73,449,088	$ 65,435,616

LIABILITIES AND SHAREHOLDER'S EQUITY

	2023	2022
LIABILITIES:		
Accounts Payable	$ -	$ 2,712
Total liabilities	-	2,712
SHAREHOLDER'S EQUITY	73,449,088	65,432,904
Total liabilities and shareholder's equity	$ 73,449,088	$ 65,435,616

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

BAY COMMUNITY BANCORP – (PARENT ONLY)
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31	
	2023	2022
INCOME:		
Dividend income from subsidiary	$ 3,570,192	$ 4,600,000
Total income	3,570,192	4,600,000
EXPENSE:		
General and administrative	526,606	789,433
Income before income taxes and equity in		
Undistributed income of subsidiary	3,043,586	3,810,567
Income tax benefit	78,385	188,696
Equity in net earnings of subsidiary	5,111,889	4,062,084
NET INCOME	$ 8,233,860	$ 8,061,347
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Change in unrealized gain (losses)		
on investment in subsidiary	$ 3,445,211	$ (10,693,134)
Income tax loss (benefit)	(1,008,712)	3,153,877
Other comprehensive income (loss), net of tax	2,436,499	(7,539,257)
TOTAL COMPREHENSIVE INCOME	$ 10,670,359	$ 522,090

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

BAY COMMUNITY BANCORP – (PARENT ONLY)
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,233,860	$ 8,061,347
Adjustments to reconcile net earnings to cash from operating activities:		
Equity in income of subsidiary	(5,111,889)	(4,062,084)
Stock option and restricted stock expense	435,967	332,021
Net change in other assets and liabilities	(92,445)	(188,697)
Net cash provided by operating activities	3,465,493	4,142,587
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(1,706,366)	(1,531,439)
Proceeds from exercise of options	176,125	418,595
Cash paid to repurchase stock	(1,559,900)	(2,297,400)
Net cash (used in) financing activities	(3,090,141)	(3,410,244)
NET INCREASE IN CASH AND CASH EQUIVALENTS	375,352	732,343
CASH AND CASH EQUIVALENTS, beginning of year	946,151	213,808
CASH AND CASH EQUIVALENTS, end of year	$ 1,321,503	$ 946,151

NOTE 24 – SUBSEQUENT EVENTS

There have been no subsequent events that have occurred after the period ending December 31, 2023 and through March 28, 2024, which is the date the consolidated financial statements were available to be issued.

"We appreciate CBB's values around not only investing locally and investing in small businesses, but also putting that investment towards businesses that are green… or are doing things in such a way that they are contributing to the community—both environmentally and socially."

LAURA PORTER, BYRD'S FILLING STATION

"CBB was just the solution to a challenge at a pivotal time in our company's history of growth. Honestly, we could have easily been put out of business. I can attribute our ability to pivot rather than sink to our relationship with Community Bank of the Bay."

BISA GRANT, ANCHOR ENGINEERING

"If we want to impact the places that we feel like need help, we need to roll up our sleeves and just get busy and do it with partners," said Fantastic Negrito, "Because we can't do it alone. No team, no dreams."

FANTASTIC NEGRITO, 3X GRAMMY AWARD WINNING BLUES ARTIST

"Without the help of CBB, and the CBB loan, I wouldn't have been able to get this. I mean, this is something that I've wanted in my business to be able to expand for at least the past five years. And finding that capital was not easy at all. I'm very thankful for being able to get the capital from CBB."

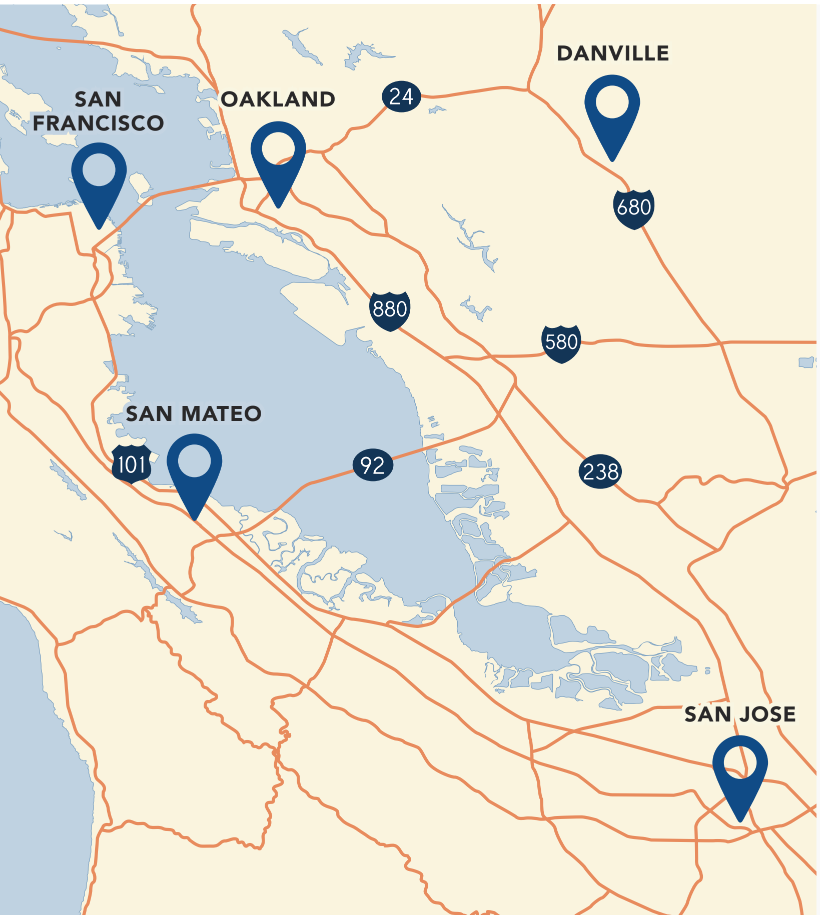
RITA FORTE, THE OLIVE STREET AGENCY

"It's a tough game to be a small business owner—the issue of cost in the Bay Area and the availability of labor. The fact that the CEO came to meet us in the first meeting and was very invested in the fact that we wanted to be in this community. They looked at our business plan, asked the right questions, and set the right tone. We would not be here without CBB."

PRITI NARAYANAN, KOOLFI CREAMERY

Community BANK OF THE BAY
Different. On Purpose.

BAY COMMUNITY BANCORP
180 Grand Avenue, Suite 1550
Oakland, CA 94612
(510) 433-5400



LOCATIONS

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(510) 433-5400

DANVILLE
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Danville, CA 94526
(925) 838-2902

SAN JOSE
956 The Alameda
San Jose, CA 95126
(408) 385-3800

SAN MATEO
400 S El Camino Real
Suite 100
San Mateo, CA 94402
(650) 389-1010

SAN FRANCISCO
Loan Production Office
870 Market Street
Suite 1255
San Francisco, CA 94102
(415) 366-4100

“Signing up for Positive Pay...has alleviated a real fear of mine, and it's already proven to have caught fraud in my business. [It's] a great tangible example of how Community Bank of the Bay is…protecting my business.”

JOHN MCNEIL, JOHN MCNEIL STUDIO

“We wouldn't be here if it wasn't for Community Bank of the Bay. At a time when it was very difficult, we had to buy our building.”

GARY RIEKES (1952 - 2021), FORMER FOUNDER, THE RIEKES CENTER