BAY COMMUNITY BANCORP

BANKCBB.COM

Community BANK OF THE BAY
Different. On Purpose.

STOCK: CBOB.A



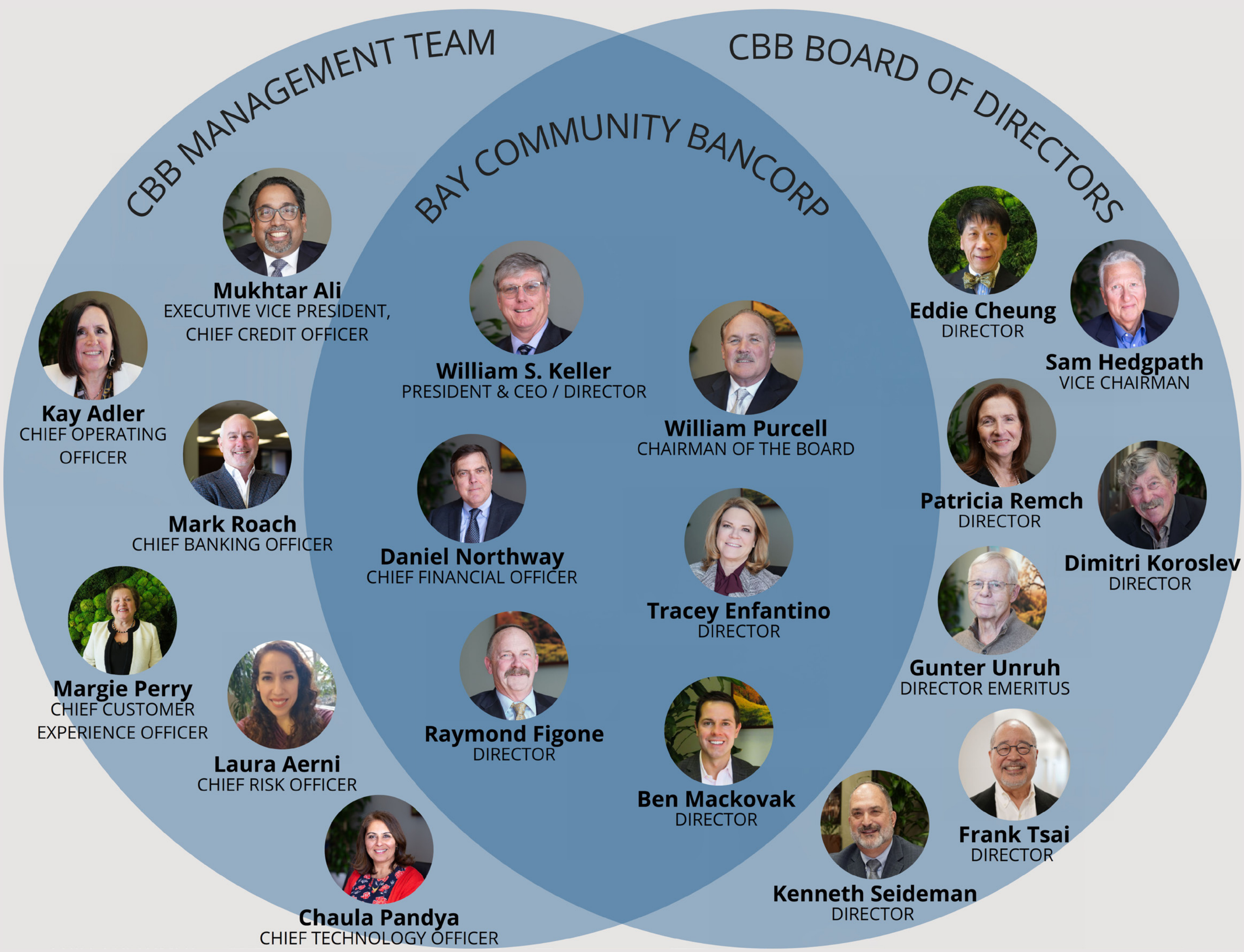
2021 ANNUAL REPORT

FINANCING FOR SUSTAINABLE COMMUNITIES.

EQUAL HOUSING LENDER
Member FDIC
CDFI
Proud to be the first CDFI certified bank in California

VALUES ARE NOT WORDS. THEY ARE WHO WE ARE.

RELATIONSHIP • COMMITMENT • SUSTAINABILITY
EMPOWERMENT • TRUST • RESPECT

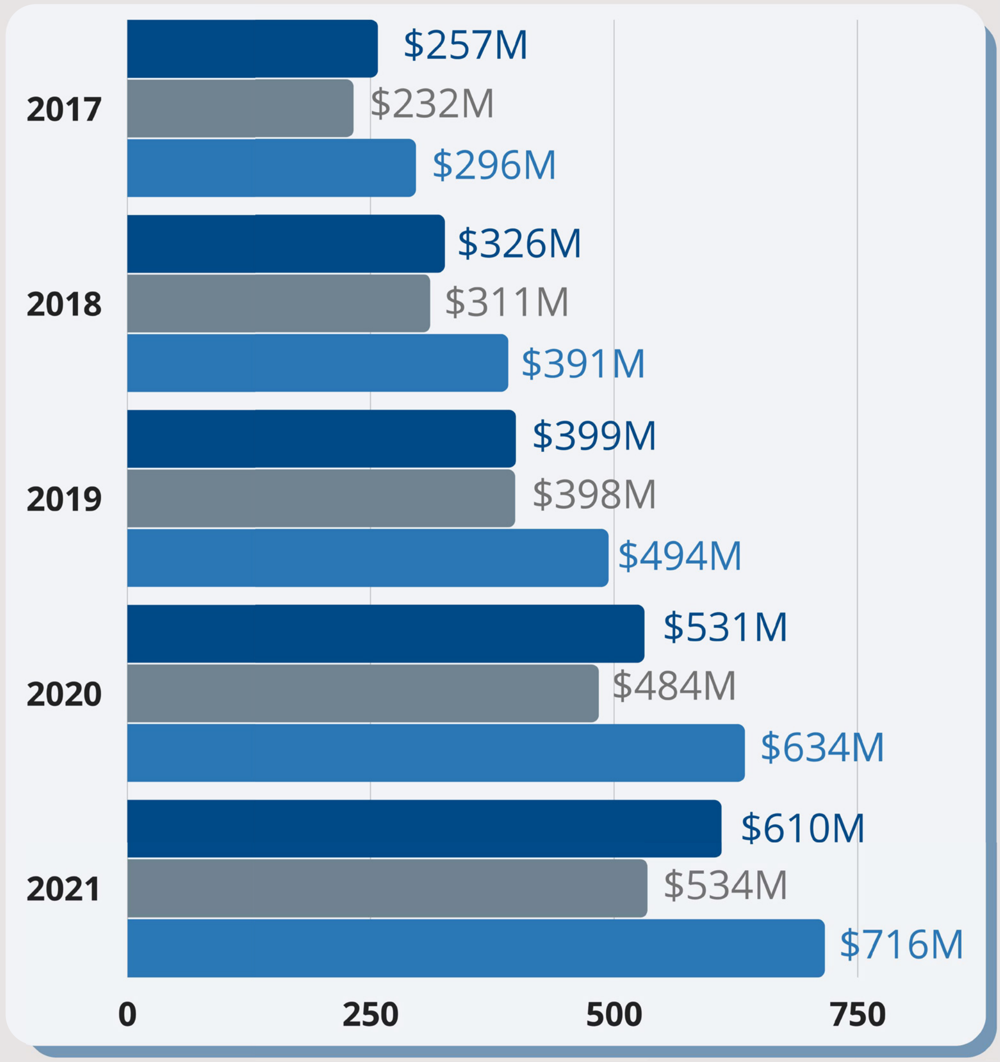


CBB SVP TEAM

Chaula Pandya Daniel Northway David Meyer John Norawong Kal Bentchev
Karen Vandenberg Kay Adler Laura Aerni Margie Perry Mark Roach
Shanon Hopkins Steven Layshock Tom Rodriguez Cary Schroeder Wil Hobbs

CBB 5 YEAR FINANCIAL OVERVIEW

BALANCE SHEET GROWTH



TOTAL DEPOSITS

24% ▲

COMPOUND ANNUAL GROWTH

TOTAL LOANS

23% ▲

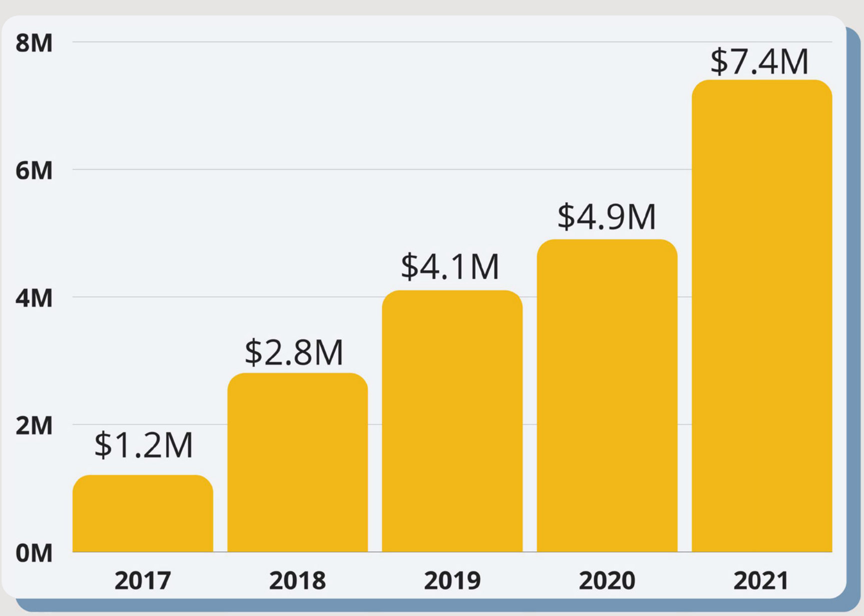
COMPOUND ANNUAL GROWTH

TOTAL ASSETS

25% ▲

COMPOUND ANNUAL GROWTH

PROFITABILITY



NET INCOME

58% ▲

COMPOUND ANNUAL GROWTH

CBB is Committed to the Individual Success of our Clients and the Long-Term Sustainability of our Communities.

Community BANK OF THE BAY

Different. On Purpose.

BAY COMMUNITY BANCORP

2022 Shareholder Letter

Dear Bay Community Bancorp Shareholder:

Our Bank reported record profitability and asset growth in 2021. To management, these full year results felt like they came from two distinctly different years as the economy transitioned from pandemic constrained to reopening rebound. Early in 2021, core loan growth was extremely difficult to come by and options for adding meaningful earning assets were limited, but around mid-year things turned around and there was a noticeable change in the market. Loan growth picked up and steadily gained momentum and we even saw the early signs of rising interest rates.

The focus of our efforts mirrored the economy. Early in the year we focused on supporting the small business relief efforts that were authorized under the Consolidated Appropriations Act, otherwise known as the CARES Act. Among other things this Act authorized $284 billion for additional Paycheck Protection Program loans ("PPP") and provided the US Treasury's Community Development Financial Institutions Fund ("CDFI Fund") with $12 billion for various types of assistance to communities that were disproportionately impacted by the pandemic. In both cases the small business assistance would generally be distributed through Community Development Financial Institutions ("CDFI") and other banks.

Initially core loan demand was weak and loans grew by only $7.8 million or 1.8% in the first six months. We focused on what was available and worked diligently on generating fee and program income. In February, the US Small Business Administration ("SBA") launched the second round of forgivable PPP loans. In an effort to assure that eligible small and midsized business were not crowded out of this important relief program, the SBA established financial carve outs and application processing windows exclusively for smaller banks and CDFI's like ours to better meet client needs.

We took this opportunity and obligation seriously and conducted numerous community outreach and educational efforts to raise awareness of this program with even the smallest businesses in our market. As a result of these outreach efforts, we made 600 second draw PPP loans, individually as small as $461, but totaling $73 million in the aggregate. These loans produced new deferred fee income of $2.8 million, while actual forgiveness of 2020 first draw PPP loans brought $581 thousand into actual income.

As a result, for the first six months we reported total net income of $4.09 million, a 98% increase from the same period in 2020. These results included a $1.83 million Rapid Response grant from the CDFI Fund which was part of the relief effort authorized by the CARES Act. Our Bank was one of just 863 financial institutions nationwide that qualified for this program, and as has been historically the case, we were awarded the maximum amount available under the program for our community impact activities.

The CARES Act also allocated $9 billion for Treasury to make preferred stock investments directly into Minority Depository Institutions ("MDI's") and CDFI's like Community Bank of the Bay through the Emergency Capital Investment Program ("ECIP"). These financial institutions could then leverage this capital into small business lending and community development activities. Treasury began announcing program details in March, and we began a dialog with our trade association and Treasury to understand if this capital investment made sense for our bank.

While discussions with Treasury continued, the second half of 2021 seemed to turn on a dime. Loan growth came on very strong around mid-year and by the end of the year core loans, not including PPP loans had increased $70 million or 16.8% from 2020 and we carried a robust loan pipeline intro 2022. As a result, we generated net income of $3.32 million in the last six months of 2021, or an 18% increase from the same period in 2020. Profitability could have been somewhat better except that in spite of continued stellar credit quality the loan growth warranted a $350 thousand provision to the loan loss reserve.

Even with the accelerating loan growth we found that by year end the combination of new clients and substantially increased liquidity in some of our small businesses and non-profit clients had us carrying excess deposits that we really couldn't effectively invest, so we worked about $75 million of marginal deposits off balance sheet. This reduction combined with our typical year end deposit outflow reduced Total Assets from $796 million at June 30 to $718 million at December 31. 2021, which still represented asset growth of 13.3% for the year.

Meanwhile, Treasury's ECIP initiative continued to gain clarity and momentum in the second half of 2021. On August 11 Treasury released an interim final rule that clarified the Program's Terms and Conditions and updated the application process. Shareholders are encouraged to review the most recent information on the ECIP Program at the US Treasury's website here:

(https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program)

In summary, under the interim final rule, MDI and CDFI banks in good standing were eligible to apply for an ECIP investment of up to 15% of Total Assets as of June 30, 2021. Treasury's investment will be in the form of Perpetual Preferred Stock with favorable terms, including a maximum dividend rate of 2.00%, that will be waived in the first two years and then may be "bought down" to 0.50% through additional impact lending and activities similar to what we have always done as a mission-driven institution. Importantly, this preferred stock investment will not include the operating constraints or carry the negative stigma associated with Treasury's TARP investments during the financial crisis.

Based on our Total Assets of $796 million on June 30, 2021 we were eligible to apply for an ECIP investment of just under $120 million. On October 18, 2021 Treasury announced that there was strong demand from eligible financial institutions for the ECIP investment program. Treasury announced that after reviewing the applications from 204 MDI and CDFI banks and credit unions, the CARES Act provided adequate funding to meet approximately 67.9% of the application requests.

On December 14, 2021 at the annual Freedman's Bank Forum in Washington, D.C. Secretary of the Treasury Janet L. Yellen and Vice President Kamala Harris announced that $8.7 billion in Emergency Capital Investments had been granted to 186 MDI and CDFI banks and credit unions to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially low-income and underserved communities that may have been disproportionately impacted by the economic effects of the COVID-19 pandemic.

Community Bank of the Bay is proud to be one of only five banks and six credit unions in California to be approved by the US Treasury for investment under ECIP, and we are currently working directly with Treasury to close the investment by June 30, 2022 at which time we will be able to announce more details including the final investment amount. Again, we encourage interested shareholders to review the ECIP investment program on the US Treasury website. We are confident that you will agree that this program provides a potentially transformative opportunity for both our Bank and the communities we serve. As you are well aware, we are California's first FDIC insured financial institution to be certified as a CDFI by the US Treasury. We have been making, and have been consistently recognized for, the kind of impact lending and community development activities that the ECIP investment was designed to encourage for over twenty-six years now, and at least since 2010 we have done so while growing over ten-fold, maintaining high credit quality standards and generating steadily increasing profits for our shareholders.

Management and the board have worked diligently to prepare for this investment capital and we are confident that any investment, whether it is preferred stock from Treasury or common stock from shareholders as we have done four times since 2010, it will only serve to enhance what we do; it will not change what we do or our reason for being.

We are excited about what the future holds for our Bank and we recognize that as we approach $1 billion in total assets, we must prepare our staff and systems to meet the enhanced expectations of a larger financial institution. We have already begun this process and have identified key individuals who will be instrumental in the next phase of our growth. These candidates are excited by the opportunity that our Bank provides and want to be part of it. Coincidentally, you will see in the proxy that our current Equity Plan is expiring and we are recommending that shareholders approve its replacement. Equity is an important component to attract and align employee incentives with shareholder objectives and we urge your support. We also recall that in last year's shareholder letter we committed to the principal of managing our capital efficiently. We began that process by initiating a dividend, the first in our Bank's history, and we expect to continue that policy as long as earnings allow. Similarly, subject to adequate earnings we also intend to manage shares outstanding to offset any new share issuances that occur via equity compensation.

In closing, we hope that you are proud of your Bank and as excited about our future as we are. We appreciate your continued support.

Sincerely,

William S. Keller
President & CEO

William E. Purcell
Chairman of the Board

Report of Independent Auditors
and Consolidated Financial Statements

Bay Community Bancorp and Subsidiary

December 31, 2021 and 2020

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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 Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021, and 2020, 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 Subsidiary as of December 31, 2021, and 2020, 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 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.

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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bay Community Bancorp and Subsidiary 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the 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 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, 2022

Consolidated Financial Statements

Bay Community Bancorp and Subsidiary
Consolidated Balance Sheets
December 31, 2021 and 2020

ASSETS

	2021	2020
Cash and due from banks	$ 79,281,401	$ 84,139,268
Federal funds sold	2,661,130	2,491,556
Total cash and cash equivalents	81,942,531	86,630,824
Interest-bearing deposits in banks	11,159,738	11,845,497
Investment securities available-for-sale	53,010,204	24,777,599
Investment securities held-to-maturity	18,000,000	9,000,000
Loans, less allowance for loan losses of $6,280,728 in 2021 and $5,697,787 in 2020	533,520,674	484,092,200
Premises and equipment, net	1,292,240	1,771,875
Bank-owned life insurance	7,579,123	7,337,224
Interest receivable and other assets	9,049,783	8,578,678
Total assets	$ 715,554,293	$ 634,033,897

LIABILITIES AND SHAREHOLDERS' EQUITY

	2021	2020
Deposits		
Non-interest bearing	$ 237,541,424	$ 206,031,544
Interest bearing	372,692,952	325,220,218
Total deposits	610,234,376	531,251,762
Interest payable and other liabilities	3,786,464	3,535,048
Other borrowings	33,500,000	37,500,000
Total liabilities	647,520,840	572,286,810
Commitments and contingencies (Note 13)		
Shareholders' equity		
Class A common stock, voting, no par value; 20,000,000 shares authorized; 8,814,208 and 8,729,986 shares issued and outstanding in 2021 and 2020, respectively	50,346,572	49,755,931
Class B common stock, non-voting, no par value; 10,000,000 shares authorized; 56,844 shares issued and outstanding in 2021 and 2020	1,421,100	1,421,100
Retained earnings	16,530,590	10,176,200
Accumulated other comprehensive (loss) income, net of taxes	(264,809)	393,856
Total shareholders' equity	68,033,453	61,747,087
Total liabilities and shareholders' equity	$ 715,554,293	$ 634,033,897

See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020

	2021	2020
INTEREST INCOME		
Interest and fees on loans	$ 24,971,589	$ 22,458,595
Interest on investment securities	1,114,327	566,737
Interest on federal funds sold	2,604	2,062
Interest on deposits in banks	241,099	322,536
Total interest income	26,329,619	23,349,930
INTEREST EXPENSE		
Interest expense on deposits	1,180,336	2,544,594
Interest on borrowings	594,808	701,158
Total interest expense	1,775,144	3,245,752
Net interest income	24,554,475	20,104,178
PROVISION FOR LOAN LOSSES	850,000	1,600,000
Net interest income after provision for loan losses	23,704,475	18,504,178
NON-INTEREST INCOME		
Service charges	161,400	191,423
Government grant	1,826,265	202,898
Gain on sale of loans, net	-	317,806
Other income	623,859	426,580
Total non-interest income	2,611,524	1,138,707
NON-INTEREST EXPENSE		
Salaries and employee benefits	9,545,295	7,261,254
Stock option expense	417,009	357,036
Occupancy and equipment	1,236,427	1,167,195
Other expenses	4,572,055	3,808,057
Total non-interest expense	15,770,786	12,593,542
Net operating income before provision for income taxes	10,545,213	7,049,343
INCOME TAX EXPENSE	3,131,803	2,161,864
NET INCOME	$ 7,413,410	$ 4,887,479
NET INCOME PER SHARE -- BASIC	$ 0.84	$ 0.56
NET INCOME PER SHARE -- DILUTED	$ 0.82	$ 0.55

Bay Community Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	2021	2020
NET INCOME	$ 7,413,410	$ 4,887,479
CHANGE IN UNREALIZED GAINS AND LOSSES ON SECURITIES AVAILABLE FOR SALE	(935,121)	413,803
INCOME TAX BENEFIT (EXPENSE)	276,456	(122,051)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(658,665)	291,752
COMPREHENSIVE INCOME	$ 6,754,745	$ 5,179,231

See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statement of Changes in Shareholders' Equity
Years Ended December 31, 2021 and 2020

	Class A Common Stock		Class B Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Earnings	Income / (Loss)	Equity
BALANCES, January 1, 2020	8,657,594	$ 49,254,914	56,844	$ 1,421,100	$ 5,288,721	$ 102,104	$ 56,066,839
Stock option exercised	72,392	143,981	-	-	-	-	143,981
Stock option expense	-	357,036	-	-	-	-	357,036
Net income	-	-	-	-	4,887,479	-	4,887,479
Other comprehensive income, net	-	-	-	-	-	291,752	291,752
BALANCES, December 31, 2020	8,729,986	49,755,931	56,844	1,421,100	10,176,200	393,856	61,747,087
Stock option exercised	84,222	173,632	-	-	-	-	173,632
Stock option expense	-	417,009	-	-	-	-	417,009
Dividends paid on common stock	-	-	-	-	(1,059,020)	-	(1,059,020)
Net income	-	-	-	-	7,413,410	-	7,413,410
Other comprehensive income, net	-	-	-	-	-	(658,665)	(658,665)
BALANCES, December 31, 2021	8,814,208	$ 50,346,572	56,844	$ 1,421,100	$ 16,530,590	$ (264,809)	$ 68,033,453

Bay Community Bancorp and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,413,410	$ 4,887,479
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	850,000	1,600,000
Change in deferred loan origination fees, net	439,797	972,265
Depreciation and amortization	467,981	324,627
Net amortization of premiums and discounts on investments available-for-sale	259,027	141,312
Gain on sale of loans, net	-	317,806
Stock option expense	417,009	357,036
Increase in cash surrender value of bank owned life insurance	(241,899)	(120,005)
Change in interest receivable and other assets	83,997	(562,394)
Change in interest payable and other liabilities	251,416	(455,576)
Net cash provided by operating activities	9,940,738	7,462,550
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from principal repayments from available-for-sale investment securities	6,339,304	6,364,530
Purchases of available-for-sale investment securities	(35,766,057)	(15,141,532)
Purchases of held-to-maturity securities	(9,000,000)	(9,000,000)
Purchases of bank-owned life insurance	-	(2,845,292)
Purchase of FHLB stock	(370,300)	(206,800)
Decrease in interest-bearing deposits in banks	685,759	212,205
Proceeds from sale of loans	-	12,164,062
Net increase in originated loans	(50,718,271)	(100,857,706)
Purchases of premises and equipment	(39,072)	(268,517)
Proceeds from tenant improvement allowance	142,380	-
Abandonment of leasehold improvements	-	(351,460)
Net cash used in investing activities	(88,726,257)	(109,930,510)

See accompanying notes and report of independent auditors.

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, interest bearing, and savings deposits	116,750,053	97,666,256
Net (decrease) increase in time deposits	(37,767,439)	34,338,377
Net (decrease) increase in other borrowings	(4,000,000)	3,000,000
Dividends paid on common stock	(1,059,020)	-
Proceeds from exercise of stock options	173,632	143,981
Net cash provided by financing activities	74,097,226	135,148,614
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,688,293)	32,680,654
CASH AND CASH EQUIVALENTS, beginning of year	86,630,824	53,950,170
CASH AND CASH EQUIVALENTS, end of year	$ 81,942,531	$ 86,630,824
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	$ 1,215,958	$ 2,548,004
Income taxes	$ 3,850,000	$ 2,080,000
Non-cash investing and financing activities:		
Change in unrealized gains / losses on available-for-sale securities	$ 935,121	$ (413,803)

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Bay Community Bancorp (the 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 (the 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.

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 loan losses is the most significant accounting estimate reflected in the Company's consolidated financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable 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, and prior loss experience.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 impaired 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, bank subordinated debt, 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, 2021 and 2020, 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-Sale Investment Securities

Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity. Management determines the appropriate classification of its investment securities at the time of purchase and may only change the classification in certain limited circumstances.

Gains and losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each consolidated financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

For debt securities that are considered other than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income (loss).

Held-to-Maturity Investment Securities

Securities are classified as held-to-maturity if the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives.

Covenants in the purchase agreements of some of the securities classified as held-to-maturity generally restrict the Company's ability to sell or assign its interest without the consent of the issuer. Management periodically assesses each held-to-maturity debt issue to determine if it is impaired due to a decline in the financial condition of the issuing entity. For issues that are determined to be impaired, the Company will recognize a loss in earnings. An impairment loss is calculated as the difference between the issue's cost basis and the present value of its expected future cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $2,292,700 and $1,922,400 at December 31, 2021 and 2020, 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.

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.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to operations. The adequacy of the allowance for loan losses is periodically evaluated by the Company in order to maintain the allowance at a level that, in the opinion of management, is adequate to absorb losses inherent in existing loans. Management's evaluation of the adequacy of the allowance is based on a consideration of the Company's historical loss experience, known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and/or principal, the estimated value of any underlying collateral, and an analysis of the levels and trends of delinquencies and charge-offs. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement.

Troubled Debt Restructuring

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. The Company measures any loss on the troubled debt restructuring in accordance with the guidance concerning impaired loans set forth above. Additionally, 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.

Certain payment deferrals may be granted under the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act") and related interagency guidance in response to financial difficulties caused by the COVID-19 pandemic. Such deferrals are not considered concessions that would lead to classification as a troubled debt restructuring. Any loan modified per the CARES Act is separately monitored, and any request for continuation of relief beyond the initial modification will be evaluated to determine if the loan should be reclassified as a troubled debt restructuring at that time. The COVID deferral relief period under the CARES Act ended effective January 1, 2022.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 other assets were $175,611 and $267,265 at December 31, 2021and 2020, respectively. The Company evaluated the servicing asset for impairment at December 31, 2021 and 2020 and determined that no valuation allowance was needed.

The Company services loans that have been participated with other financial institutions totaling $12,727,073 and $17,302,730 as of December 31, 2021 and 2020, 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, 2021 for loans previously sold.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 to six years, some of which include renewal options to extend the lease for up to five years. 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.

Bank-Owned Life Insurance

The Bank has purchased insurance on the lives of 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 benefit 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 the cash surrender value are recorded as other non-interest income in the consolidated statements of income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021 and 2020.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2021 and 2020, the Company recognized no interest and penalties.

With few exceptions, the Company is no longer subject to examinations by U.S. federal taxing authorities for years ended before December 31, 2018, and by state authorities for years ended before December 31, 2017.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expense was $226,958 and $223,575 for the years ended December 31, 2021 and 2020, respectively.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. The FASB has deferred the effective date of this ASU to fiscal years beginning on or after December 15, 2022, including interim periods within those fiscal years for public business entities. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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; however, the Company will assess the applicability of the ASU to us and continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

Reclassification and Presentation

Certain balances in the 2020 presentation have been reclassified to conform to the 2021 presentation. Reclassifications had no impact on net earnings, total assets, total liabilities, or shareholders' equity.

The Company has purchased unsecured subordinated debt issued by various bank holding companies. The subordinated debt was carried at cost on the Company's balance sheet as an other asset in 2020; income was accrued on a monthly basis and recognized in non-interest income. In 2021, the Company changed its reporting of subordinated debt to include it with Investment Securities. It is classified as held-to-maturity. Income is accrued on a monthly basis and is recognized as interest on investment securities. The 2020 presentation of subordinated debt has been reclassified to conform to the 2021 presentation. This reclassification had no impact on net earnings, total assets, total liabilities, or shareholders' equity.

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 temporarily suspended by the Federal Reserve in March, 2020 in response to the COVID-19 pandemic.

NOTE 4 – SECURITIES

The following table provides the amortized cost and estimated fair value of by major categories of investment securities as of December 31, 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Mortgage-backed securities	$ 31,344,118	$ 176,135	$ (335,936)	$ 31,184,317
CMOs	12,348,224	59,526	(187,018)	12,220,732
Municipals - taxable	7,743,380	4,010	(111,150)	7,636,240
Municipals - exempt	1,950,944	20,858	(2,887)	1,968,915
Total Available-for-sale securities	$ 53,386,666	$ 260,529	$ (636,991)	$ 53,010,204
Held-to-maturity securities:				
Subordinated debt	$ 18,000,000	$ 95,099	$ (100,979)	$ 17,994,120
Total held-to-maturity securities:	$ 18,000,000	$ 95,099	$ (100,979)	$ 17,994,120

The following table provides the amortized cost and estimated fair value of by major categories of investment securities as of December 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Mortgage-backed securities	$ 9,291,735	$ 312,397	$ -	$ 9,604,132
CMOs	9,692,252	179,538	(7,722)	9,864,068
Municipals - taxable	3,253,117	31,289	(2,406)	3,282,000
Municipals - exempt	1,981,836	45,563	-	2,027,399
Total Available-for-sale securities	$ 24,218,940	$ 568,787	$ (10,128)	$ 24,777,599
Held-to-maturity securities:				
Subordinated debt	$ 9,000,000	$ -	$ -	$ 9,000,000
Total held-to-maturity securities:	$ 9,000,000	$ -	$ -	$ 9,000,000

NOTE 4 – SECURITIES (CONTINUED)

The Company had no proceeds from the sales of investment securities during the years ended December 31, 2021 and 2020. There were no gross realized gains or losses during 2021 and 2020.

Investment securities with unrealized losses at December 31, 2021 and 2020 are summarized and classified according to the duration of the loss period as follows:

	2021					
	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						
Mortgage-backed securities	$ 26,588,737	$ (335,936)	$ -	$ -	$ 26,588,737	$ (335,936)
CMOs	9,078,983	(187,018)	-	-	9,078,983	(187,018)
Municipals - taxable	7,272,231	(111,150)	-	-	7,272,231	(111,150)
Municipals - exempt	424,072	(2,887)	-	-	424,072	(2,887)
Total available-for-sale securities	$ 43,364,023	$ (636,991)	$ -	$ -	$ 43,364,023	$ (636,991)
Held-to-maturity securities						
Subordinated debt	$ 17,994,120	$ (100,979)	$ -	$ -	$ 17,994,120	$ (100,979)
Total held-to-maturity securities	$ 17,994,120	$ (100,979)	$ -	$ -	$ 17,994,120	$ (100,979)

	2020					
	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						
CMOs	$ 3,951,003	$ (7,722)	$ -	$ -	$ 3,951,003	$ (7,722)
Municipals - taxable	724,968	(2,406)	-	-	724,968	(2,406)
Total available-for-sale securities	$ 4,675,971	$ (10,128)	$ -	$ -	$ 4,675,971	$ (10,128)

NOTE 4 – SECURITIES (CONTINUED)

Certain investment securities shown above currently have fair values less than amortized cost and, therefore, contain unrealized losses. The Company does not have the intent to sell the investments that are temporarily impaired, and it is more likely than not that the Company will not be required to sell those investments before recovery of the amortized cost basis. The Company has evaluated these securities and has determined that the decline in value is no other than temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

There were thirty-seven and five available-for-sale investment securities with unrealized losses at December 31, 2021 and 2020, respectively. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The amortized cost and estimated fair value of investment securities at December 31, 2021 by contractual maturity are shown below. 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.

Available-for-sale securities	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,900,266	$ 1,980,096
Due after five years through ten years	12,432,574	12,275,510
Due after ten years	39,053,826	38,754,598
	$ 53,386,666	$ 53,010,204

Held-to-maturity securities	Amortized Cost	Estimated Fair Value
Due after five years through ten years	$ 18,000,000	$ 17,994,120
	$ 18,000,000	$ 17,994,120

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans, by class, are summarized as follows:

	December 31,	
	2021	2020
Commercial	$ 170,058,856	$ 180,024,559
Commercial real estate		
Non-owner occupied	182,309,827	146,236,454
Owner occupied	107,822,402	82,797,797
Construction and land	44,163,874	60,712,631
Consumer and other	37,708,153	21,840,459
	542,063,112	491,611,900
Deferred loan fees and costs, net	(2,261,710)	(1,821,913)
Allowance for loan losses	(6,280,728)	(5,697,787)
	$ 533,520,674	$ 484,092,200

The Paycheck Protection Program ("PPP") was enacted by the Small Business Administration ("SBA") in 2020 under the authorization provided by the CARES Act. PPP loans are fully-guarantied by the SBA, and, if certain conditions are met, are repaid by SBA loan forgiveness. The Bank had $38,631,461 and $66,035,059 of PPP loans outstanding as of December 31, 2021 and 2020, respectively. PPP loans are classified as Commercial loans in the above table and in all subsequent tables.

Salaries and employee benefits totaling $1,045,622 and $1,475,282 have been deferred as loan origination costs for the years ended December 31, 2021 and 2020, 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 LOAN LOSSES (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 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (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.

The following tables summarize the credit quality indicators related to the Company's loans, by class, as of December 31, 2021 and 2020:

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 166,467,330	$ 2,470,143	$ 1,121,383	$ -	$ 170,058,856
Commercial real estate					
Non-owner occupied	176,658,055	5,651,772	-	-	182,309,827
Owner occupied	100,094,037	7,728,365	-	-	107,822,402
Construction and land	44,163,874	-	-	-	44,163,874
Consumer and other	37,708,153	-	-	-	37,708,153
Total	$ 525,091,449	$ 15,850,280	$ 1,121,383	$ -	$ 542,063,112

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 178,085,657	$ 314,232	$ 1,624,670	$ -	$ 180,024,559
Commercial real estate					
Non-owner occupied	142,898,748	3,337,706	-	-	146,236,454
Owner occupied	74,957,912	7,839,885	-	-	82,797,797
Construction and land	60,712,631	-	-	-	60,712,631
Consumer and other	21,840,459	-	-	-	21,840,459
Total	$ 478,495,407	$ 11,491,823	$ 1,624,670	$ -	$ 491,611,900

As a part of the on-going monitoring of the credit quality of the Company's loan portfolio, management monitors certain credit quality indicators including trends related to risk grade classifications, concentrations, net charge-offs, non-performing loans, and general economic conditions.

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

The Company uses a risk grading system to assign a risk grade to each of 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 (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 LOAN LOSSES (CONTINUED)

Age Analysis of Past Due Loans

The age analysis of past due loans by class as of December 31, 2021 consisted of the following:

	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial	$ -	$ -	$ 26,840	$ 26,840	$170,032,016	$ 170,058,856	$ -
Commercial real estate							
Non-owner occupied	-	-	-	-	182,309,827	182,309,827	-
Owner occupied	-	-	-	-	107,822,402	107,822,402	-
Construction and land	-	-	-	-	44,163,874	44,163,874	-
Consumer and other	-	-	-	-	37,708,153	37,708,153	-
Total	$ -	$ -	$ 26,840	$ 26,840	$542,036,272	$ 542,063,112	$ -

The age analysis of past due loans by class as of December 31, 2020 consisted of the following:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ -	$ -	$ 428,170	$ 428,170	$179,596,389	$ 180,024,559	$ -
Commercial real estate							
Non-owner occupied	-	-	-	-	146,236,454	146,236,454	-
Owner occupied	-	-	-	-	82,797,797	82,797,797	-
Construction and land	-	-	-	-	60,712,631	60,712,631	-
Consumer and other	-	-	-	-	21,840,459	21,840,459	-
Total	$ -	$ -	$ 428,170	$ 428,170	$491,183,730	$ 491,611,900	$ -

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

Information related to impaired loans by class as of December 31, 2021 and for the year then ended consisted of the following:

	Commercial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction and Land	Consumer and other	Total
Recorded investment in impaired loans:						
With no specific allowance recorded	$ 26,840	$ -	$ -	$ -	$ -	$ 26,840
With a specific allowance recorded	-	-	-	-	-	-
Total recorded investment in impaired loans	$ 26,840	$ -	$ -	$ -	$ -	$ 26,840
Unpaid principal balance of impaired loans:						
With no specific allowance recorded	$ 53,915	$ -	$ -	$ -	$ -	$ 53,915
With a specific allowance recorded	-	-	-	-	-	-
Total unpaid principal balance of impaired loans	$ 53,915	$ -	$ -	$ -	$ -	$ 53,915
Specific allowance	$ -	$ -	$ -	$ -	$ -	$ -
Average recorded investment in impaired loans during the year	$ 103,643	$ -	$ -	$ -	$ 228,846	$ 332,489
Interest income recognized in impaired loans during the year	$ 27,075	$ -	$ -	$ -	$ 9,287	$ 36,362

Information related to impaired loans by class as of December 31, 2020 and for the year then ended consisted of the following:

	Commercial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction and Land	Consumer and other	Total
Recorded investment in impaired loans:						
With no specific allowance recorded	$ 159,866	$ -	$ -	$ -	$ 555,736	$ 715,602
With a specific allowance recorded	268,304	-	-	-	-	268,304
Total recorded investment in impaired loans	$ 428,170	$ -	$ -	$ -	$ 555,736	$ 983,906
Unpaid principal balance of impaired loans:						
With no specific allowance recorded	$ 263,745	$ -	$ -	$ -	$ 555,736	$ 819,481
With a specific allowance recorded	268,304	-	-	-	-	268,304
Total unpaid principal balance of impaired loans	$ 532,049	$ -	$ -	$ -	$ 555,736	$ 1,087,785
Specific allowance	$ 268,304	$ -	$ -	$ -	$ -	$ 268,304
Average recorded investment in impaired loans during the year	$ 169,203	$ -	$ -	$ -	$ 561,167	$ 730,370
Interest income recognized in impaired loans during the year	$ 103,879	$ -	$ -	$ -	$ 22,477	$ 126,356

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

Non-accrual loans at December 31, 2021 and 2020 consisted only of Commercial loans, with carrying values of $26,840 and $428,170 respectively.

Changes in the allowance for loan losses, by class, for the year ended December 31, 2021 were as follows:

	Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 1,556,238	$ 2,800,106	$ 839,582	$ 42,004	$ 459,857	$ 5,697,787
Charge-offs	(268,304)	-	-	-	-	(268,304)
Recoveries	1,245	-	-	-	-	1,245
Provision (benefit)	453,556	518,632	(324,057)	261,536	(59,667)	850,000
Ending balance	$ 1,742,735	$ 3,318,738	$ 515,525	$ 303,540	$ 400,190	$ 6,280,728
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	1,742,735	3,318,738	515,525	303,540	400,190	6,280,728
Ending balance	$ 1,742,735	$ 3,318,738	$ 515,525	$ 303,540	$ 400,190	$ 6,280,728
Loans						
Individually evaluated for impairment	$ 26,840	$ -	$ -	$ -	$ -	$ 26,840
Collectively evaluated for impairment	170,032,016	290,132,229	44,163,874	37,708,153	-	542,036,272
Ending balance	$ 170,058,856	$ 290,132,229	$ 44,163,874	$ 37,708,153	$ -	$ 542,063,112

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

Changes in the allowance for loan losses, by class, for the year ended December 31, 2020 were as follows:

	Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 874,280	$ 2,143,306	$ 365,765	$ 82,150	$ 640,342	$ 4,105,843
Charge-offs	(18,068)	-	-	-	-	(18,068)
Recoveries	10,012	-	-	-	-	10,012
Provision (benefit)	690,014	656,800	473,817	(40,146)	(180,485)	1,600,000
Ending balance	$ 1,556,238	$ 2,800,106	$ 839,582	$ 42,004	$ 459,857	$ 5,697,787
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 268,304	$ -	$ -	$ -	$ -	$ 268,304
Loans collectively evaluated for impairment	1,287,934	2,800,106	839,582	42,004	459,857	5,429,483
Ending balance	$ 1,556,238	$ 2,800,106	$ 839,582	$ 42,004	$ 459,857	$ 5,697,787
Loans						
Individually evaluated for impairment	$ 428,170	$ -	$ -	$ 555,736	$ -	$ 983,906
Collectively evaluated for impairment	179,596,389	229,034,251	60,712,631	21,284,723	-	490,627,994
Ending balance	$ 180,024,559	$ 229,034,251	$ 60,712,631	$ 21,840,459	$ -	$ 491,611,900

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

The following table summarizes loans to customers whose loan terms were modified in troubled debt restructurings during the years ended December 31, 2021 and 2020:

	December 31, 2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 127,121	$ 127,121
	1	$ 127,121	$ 127,121

	December 31, 2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 130,524	$ 130,524
	1	$ 130,524	$ 130,524

The above loans were modified and considered troubled debt restructurings because specific interest rate concessions or payment term concessions were granted to the borrowers. The Company had no obligations to lend additional funds on the restructured loans as of December 31, 2021 and 2020.

There were no troubled debt restructurings in 2021 and 2020 that subsequently defaulted within twelve months.

Interest recognized for cash payments received on non-accrual loans was not significant for the years ended December 31, 2021 and 2020. At December 31, 2021 and 2020, there were no loans over 90 days past due that were still accruing interest.

All loans modified due to COVID-19 under the CARES Act are separately monitored, and any request for continuation of relief beyond the initial modification will be reassessed at that time to determine if a further modification should be granted and if a downgrade in risk rating is appropriate. There were no loans and 9 loans, in the amount of $0 and $14,291,314, that were modified under the CARES Act as of December 31, 2021 and 2020, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2021	December 31, 2020
Leasehold improvements	$ 651,412	$ 872,697
Furniture, fixtures, and equipment	1,829,094	1,790,022
	2,480,506	2,662,719
Less accumulated depreciation and amortization	(1,188,266)	(890,844)
	$ 1,292,240	$ 1,771,875

Depreciation and amortization included in occupancy and equipment expense totaled $376,327 and $281,744 for the years ended December 31, 2021 and 2020, 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, 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 February 2023 and November 2026.

Right-of-use assets and lease liabilities are $1,466,088 and $1,471,509, respectively, as of December 31, 2021 and $2,083,670 and $2,099,124, respectively, as of December 31, 2020. The leases are considered operating leases and are included in other assets and other liabilities, respectively. The Company had no finance leases or short-term leases as of December 31, 2021 and 2020.

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.

Our operating leases have one 5-year extension option 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 $627,154 and $589,515 for the years ended December 31, 2021 and 2020, 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, 2021 are as follows:

	Payments
2022	$ 644,836
2023	564,032
2024	265,363
2025	122,606
2026	114,446
Thereafter	-
Total undiscounted lease payments	1,711,283
Less: imputed interest	(239,774)
Net lease liabilities	$ 1,471,509

Additional information regarding our operating leases is summarized below for the year ended December 31, 2021:

Cash paid for amounts included in the measurement of lease liabilities for operating leases	$ 627,154
Right-of-use assets obtained in exchange for lease liabilities	$ 1,466,088
Weighted average remaining lease term in months	31
Weighted average discount rate	2.58%

NOTE 8 – INTEREST RECEIVABLE AND OTHER ASSETS

Interest receivable and other assets are as follows:

	December 31,	
	2021	2020
Deferred income tax asset, net	$ 2,249,485	$ 1,319,414
Interest receiveable -- securities	287,254	237,014
Interest and fees receiveable -- loans	1,591,748	2,158,081
Prepaid expenses and other assets	2,628,596	2,941,769
FHLB Stock	2,292,700	1,922,400
	$ 9,049,783	$ 8,578,678

NOTE 9 – DEPOSITS

Customer deposits consisted of the following:

	December 31, 2021	December 31, 2020
Demand	$ 237,541,424	$ 206,031,544
NOW accounts	60,839,574	29,607,411
Money market	220,306,972	170,386,643
Savings	14,253,976	10,166,295
Time, under $250,000	43,885,064	29,960,690
Time, $250,000 or more	33,407,366	85,099,179
	$ 610,234,376	$ 531,251,762

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2022	$ 41,374,670
2023	11,302,544
2024	6,430,801
2025	12,012,251
2026	6,172,164
	$ 77,292,430

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

	Years Ended December 31, 2021	Years Ended December 31, 2020
NOW accounts	$ 75,590	$ 52,452
Money market	508,978	1,003,707
Savings	20,970	20,691
Time	574,798	1,467,744
	$ 1,180,336	$ 2,544,594

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, up to 25% of its assets provided that adequate collateral has been pledged. No investment securities were pledged at December 31, 2021 or 2020, respectively. Loans with an unpaid principal balance of $128,571,371 and $125,670,399 were pledged at December 31, 2021 and 2020, respectively. Collateralized borrowing capacity at the FHLB was $104,293,667 and $97,341,135 as of December 31, 2021 and 2020, respectively.

The Company utilized $45,000,000 of its collateralized borrowing capacity for Letters of Credit at December 31, 2021 and 2020, respectively, and had $33,500,000 and $37,500,000 outstanding borrowings from the FHLB as of December 31, 2021 and 2020, respectively. Net remaining borrowing capacity at the FHLB was $25,793,667 and $14,841,135 as of December 31, 2021 and 2020, respectively.

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

Years Ending December 31,	Rate (%)	Current Par ($)
2022	0.9051	$ 14,000,000
2023	2.0400	9,500,000
2024	2.0700	10,000,000
		$ 33,500,000

Lines of Credit

The Company has three unsecured available lines of credit totaling $31,500,000 with three of its correspondent banks. There were no borrowings outstanding under these arrangements at December 31, 2021 and 2020, respectively.

NOTE 11 – INCOME TAXES

Income tax expense for the years ended December 31, 2021 and 2020, consists of the following:

	2021	2020
Current		
Federal	$ 2,443,742	$ 1,272,299
State	1,329,620	888,817
	3,773,362	2,161,116
Deferred		
Federal	(460,268)	96,880
State	(181,291)	(96,132)
	(641,559)	748
Income tax expense	$ 3,131,803	$ 2,161,864

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:

	2021		2020	
	Amount	Percent	Amount	Percent
Tax at statutory rate	$ 2,214,495	21%	$ 1,480,362	21%
State income tax	915,117	9%	607,039	9%
Bank owned life insurance	(50,799)	0%	(25,201)	0%
Equity compensation	55,584	1%	42,910	1%
Other	(2,594)	1%	56,754	1%
	$ 3,131,803	31%	$ 2,161,864	31%

NOTE 11 – INCOME TAXES (CONTINUED)

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

	2021	2020
Deferred tax assets		
Net operating loss carryforwards	$ 26,504	$ 41,528
Allowance for loan losses	1,805,385	1,591,427
Right-to-use lease liability	435,031	620,577
Unrealized losses on available-for-sale investment securities	111,295	-
Nonaccrual loan interest	8,003	30,710
Non-qualified stock options	305,312	264,248
State income tax	229,970	188,552
Other	396,640	176,272
Total deferred tax assets	3,318,140	2,913,314
Deferred tax liabilities		
Depreciation on premises and equipment	(288,100)	(346,370)
Unrealized gains on available-for-sale investment securities	-	(165,160)
Deferred loan costs	(345,279)	(451,863)
Right-to-use lease asset	(433,428)	(616,008)
Other	(14,499)	(14,499)
	(1,081,306)	(1,593,900)
Net deferred income tax asset	$ 2,236,834	$ 1,319,414

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, 2021 and 2020, the valuation allowance remained at $0.

The Company has usable net operating loss carryforwards of approximately $126,209 for federal tax purposes that begin to expire in 2022. 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, 2021	December 31, 2020
Aggregate amount outstanding, beginning of year	$ 2,846,261	$ 4,174,458
New loans, advances, or additions during year	2,306,152	2,075,000
Repayments during year	(1,844,793)	(3,403,197)
Aggregate amount outstanding, end of year	$ 3,307,620	$ 2,846,261
Unused loan commitments	$ 1,660,847	$ 2,700,060

Related party deposits amounted to $15,270,224 and $12,964,446 as of December 31, 2021 and 2020, 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, 2021 and 2020, the Company had commitments to extend credit of approximately $142,357,273 and $119,524,456, respectively. There were $0 and $400,000 in standby letters of credit issued at December 31, 2021 and 2020, 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:

	2021	2020
Government grants	$ 1,826,265	$ 202,898
Change in cash surrender value of BOLI	241,899	120,005
Service charges	161,400	191,423
FHLB dividend	120,658	99,121
Loan document and packaging fees	113,225	94,675
SBA servicing income	49,637	72,441
Other	98,440	40,338
Gain on sale of loans	-	317,806
Total non-interest income	$ 2,611,524	$ 1,138,707

NOTE 15 – GOVERNMENT GRANTS

The Company was awarded $1,826,265 and $202,898 in 2021 and 2020, respectively, by the United States Treasury Department in recognition of its community development activities under the Community Development Financial Institutions Rapid Response (RRP) and Bank Enterprise Award (BEA) Programs. Management believes that the Company has complied, in all material aspects, with all of the covenants and requirements under the RRP and BEA 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.

NOTE 16 – OTHER EXPENSES

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

	2021	2020
Data processing	$ 1,873,911	$ 1,458,991
Professional fees	565,363	636,025
Loan related expenses	288,684	306,723
Regulatory assessments	491,834	241,359
Advertising	226,958	223,575
Title company deposit expenses	178,170	89,997
Insurance	108,351	85,476
Donations	98,174	46,715
Sundry losses	9,861	4,895
Other operating expenses	730,749	714,301
Total other expenses	$ 4,572,055	$ 3,808,057

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 $263,516 and $238,946 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, the participants in the non-qualified plan have deferred $95,205 and $40,164, 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 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, 2021 and 2020, a salary continuation liability of $150,289 and $97,420, respectively, had been accrued by the Bank. The salary continuation liability is reflected in Other Liabilities on the Company's balance sheet. Expense recognized under these plans totaled $52,869 and $97,420 for the years ended December 31, 2021 and 2020, respectively.

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

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 $1,059,020 and $0 in 2021 and 2020, respectively.

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.

	Year Ended December 31, 2021		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 7,413,410	8,816,287	$ 0.84
Effect of dilutive securities:			
Stock options		259,837	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 7,413,410	9,076,124	$ 0.82

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

	Year Ended December 31, 2020		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 4,887,479	8,743,954	$ 0.56
Effect of dilutive securities:			
Stock options		221,288	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 4,887,479	8,965,242	$ 0.55

Stock Option Plan

During 2012, the Board of Directors and shareholders approved the adoption of the Community Bank of the Bay 2012 Stock Option 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, 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 this plan amounted to 959,489 and 1,093,627 as of December 31, 2021 and 2020, 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 2021: no expected dividends; expected volatility of 34.64%; risk-free interest rate of 1.58%; and expected options term of ten years. There were no option grants in 2020.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2021:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	988,263	$ 5.00
Granted	83,000	$ 7.81
Exercised	(82,422)	$ 3.85
Forfeited / canceled / expired	(73,883)	$ 4.51
Outstanding at end of period	914,958	$ 5.40

The following table summarizes information about stock options outstanding at December 31, 2020:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,141,742	$ 4.83
Granted	-	$ -
Exercised	(76,179)	$ 3.60
Forfeited / canceled / expired	(77,300)	$ 3.93
Outstanding at end of period	988,263	$ 5.00

The Company recognized $417,009 and $357,036 in stock option expense for the years ended December 31, 2021 and 2020, respectively. There is approximately $532,573 and $582,379 in unrecognized compensation cost remaining as of December 31, 2021 and 2020, respectively, which is expected to be recognized over a weighted-average period of 3.02 years and 2.42 years, respectively.

The Company had 393,792 and 463,529 incentive stock options and 521,166 and 524,734 non-statutory stock options outstanding as of December 31, 2021 and 2020, respectively.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

A summary of options outstanding follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Weighted-average fair value of options granted during the year	$ 3.61	$ -
Intrinsic value of options exercised	$ 293,822	$ 195,723
Options exercisable at year end	728,997	786,619
Weighted-average exercise price	$ 4.88	$ 4.51
Intrinsic value	$ 1,780,706	$ 1,254,785
Weighted-average remaining contractual life	3.84 Years	4.11 Years
Options outstanding at year end	914,958	988,263
Weighted-average exercise price	$ 5.40	$ 5.00
Intrinsic value	$ 1,806,666	$ 1,275,085
Weighted-average remaining contractual life	4.71 Years	4.81 Years

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, 2021 and 2020.

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, 2021:						
Company						
Tier 1 capital						
(to risk-weighted assets)	$ 68,122,000	12.34%	$ 33,117,600	≥ 6.0%	N / A	N / A
Common equity Tier 1						
(to risk-weighted assets)	$ 68,122,000	12.34%	$ 24,838,200	≥ 4.5%	N / A	N / A
Total risk-based capital						
(to risk-weighted assets)	$ 74,564,000	13.51%	$ 44,156,800	≥ 8.0%	N / A	N / A
Tier 1 capital						
(to average assets)	$ 68,122,000	9.19%	$ 29,643,600	≥ 4.0%	N / A	N / A
December 31, 2021:						
Bank						
Tier 1 capital						
(to risk-weighted assets)	$ 67,806,000	12.28%	$ 33,117,600	≥ 6.0%	$ 44,156,800	≥ 8.0%
Common equity Tier 1						
(to risk-weighted assets)	$ 67,806,000	12.28%	$ 24,838,200	≥ 4.5%	$ 35,877,400	≥ 6.5%
Total risk-based capital						
(to risk-weighted assets)	$ 74,248,000	13.45%	$ 44,156,800	≥ 8.0%	$ 55,196,000	≥ 10.0%
Tier 1 capital						
(to average assets)	$ 67,806,000	9.15%	$ 29,643,600	≥ 4.0%	$ 37,054,500	≥ 5.0%
December 31, 2020:						
Bank						
Tier 1 capital						
(to risk-weighted assets)	$ 61,121,000	13.14%	$ 27,899,580	≥ 6.0%	$ 37,199,440	≥ 8.0%
Common equity Tier 1						
(to risk-weighted assets)	$ 61,121,000	13.14%	$ 20,924,685	≥ 4.5%	$ 30,224,545	≥ 6.5%
Total risk-based capital						
(to risk-weighted assets)	$ 66,933,000	14.39%	$ 37,199,440	≥ 8.0%	$ 46,499,300	≥ 10.0%
Tier 1 capital						
(to average assets)	$ 61,121,000	9.31%	$ 26,258,240	≥ 4.0%	$ 32,822,800	≥ 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:

		2021		2020	
	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	Level 1	$ 81,942,531	$ 81,942,531	$ 86,630,824	$ 86,630,824
Interest bearing deposits in banks	Level 2	11,159,738	11,218,469	11,845,497	11,966,176
Securities					
Available-for-sale	Level 2	53,010,204	53,010,204	24,777,599	24,777,599
Held to maturity	Level 3	18,000,000	18,000,000	9,000,000	9,000,000
FHLB stock	Level 2	2,292,700	2,292,700	1,922,400	1,922,400
Loans, net	Level 3	533,520,674	530,526,090	484,092,200	484,140,472
Interest receivable	Level 2	1,879,002	1,879,002	2,395,095	2,395,095
Financial liabilities:					
Non-maturity deposits	Level 2	532,941,946	533,661,000	416,191,893	417,100,000
Time deposits	Level 2	77,292,430	78,430,122	115,059,869	115,695,000
Secured borrowings	Level 2	33,500,000	33,755,000	37,500,000	38,458,000
Interest payable	Level 2	101,176	101,176	136,798	136,798
Off-balance-sheet liabilities:					
Undisbursed loan commitments	Level 3	1,423,573	1,195,245	1,037,917	871,445

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020. 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, 2021	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:				
Mortgage-backed securities	$ 31,184,317	$ -	$ 31,184,317	$ -
CMOs	12,220,732	-	12,220,732	-
Municipals - taxable	7,636,240	-	7,636,240	-
Municipals - exempt	1,968,915	-	1,968,915	-
Total	$ 53,010,204	$ -	$ 53,010,204	$ -

Description of Assets	December 31, 2020	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:				
Mortgage-backed securities	$ 9,604,132	$ -	$ 9,604,132	$ -
CMOs	9,864,068	-	9,864,068	-
Municipals - taxable	3,282,000	-	3,282,000	-
Municipals - exempt	2,027,399	-	2,027,399	-
Total	$ 24,777,599	$ -	$ 24,777,599	$ -

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 and Other Investments

For FHLB stock and other investments, 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

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)

FHLB 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 (the 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, and has been offered an ECIP investment by the Treasury. The Company is reviewing the proposed terms and conditions of the ECIP investment offer.

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

	2021	2020
ASSETS:		
Cash and cash equivalents	$ 213,808	$ -
Investment in bank subsidiary	67,716,776	61,782,216
Interest receivable and other assets	104,985	20,149
Total assets	$ 68,035,569	$ 61,802,365

LIABILITIES AND SHAREHOLDER'S EQUITY

	2021	2020
LIABILITIES:		
Accounts Payable	$ 2,712	$ 5,278
Accrued Expenses	-	50,000
Total liabilities	2,712	55,278
SHAREHOLDER'S EQUITY	68,032,857	61,747,087
Total liabilities and shareholder's equity	$ 68,035,569	$ 61,802,365

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

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

	YEAR ENDED DECEMBER 31	
	2021	2020
INCOME:		
Dividend income from subsidiary	$ 1,227,089	$ -
Total income	1,227,089	-
EXPENSE:		
General and administrative	467,335	85,029
Income (loss) before income taxes and equity in undistributed income of subsidiary	759,754	(85,029)
Income tax benefit	59,836	20,149
Equity in net earnings of subsidiary	6,593,820	4,952,359
NET INCOME	$ 7,413,410	$ 4,887,479
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Change in unrealized gains and losses on investment in subsidiary	$ (376,462)	$ -
Income tax (expense) benefit	111,653	-
Other comprehensive loss net of tax	(264,809)	-
TOTAL COMPREHENSIVE INCOME	$ 7,148,601	$ 4,887,479

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

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

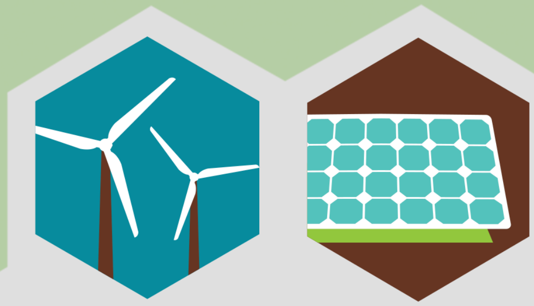
	YEAR ENDED DECEMBER 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,413,410	$ 4,887,479
Adjustments to reconcile net earnings to cash from operating activities:		
Equity in income of subsidiary	(6,593,820)	(4,952,359)
Stock option expense	417,009	29,750
Net change in other assets and liabilities	(137,403)	35,130
Net cash (used in) provided by operating activities	1,099,196	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in bank subsidiary	-	(56,829,857)
Net cash provided by (used in) investing activities	-	(56,829,857)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(1,059,020)	-
Proceeds from exercise of options	173,632	-
Proceeds from exchange of stock	-	56,829,857
Net cash (used in) provided by financing activities	(885,388)	56,829,857
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	213,808	-
CASH AND CASH EQUIVALENTS, beginning of year	-	-
CASH AND CASH EQUIVALENTS, end of year	$ 213,808	$ -

NOTE 24 – SUBSEQUENT EVENTS

The Company has evaluated the effects of subsequent events that have occurred after the period ending December 31, 2021 and through March 28, 2022, which is the date the consolidated financial statements were available to be issued.

BAY AREA GREEN FUND LOAN PROJECTS

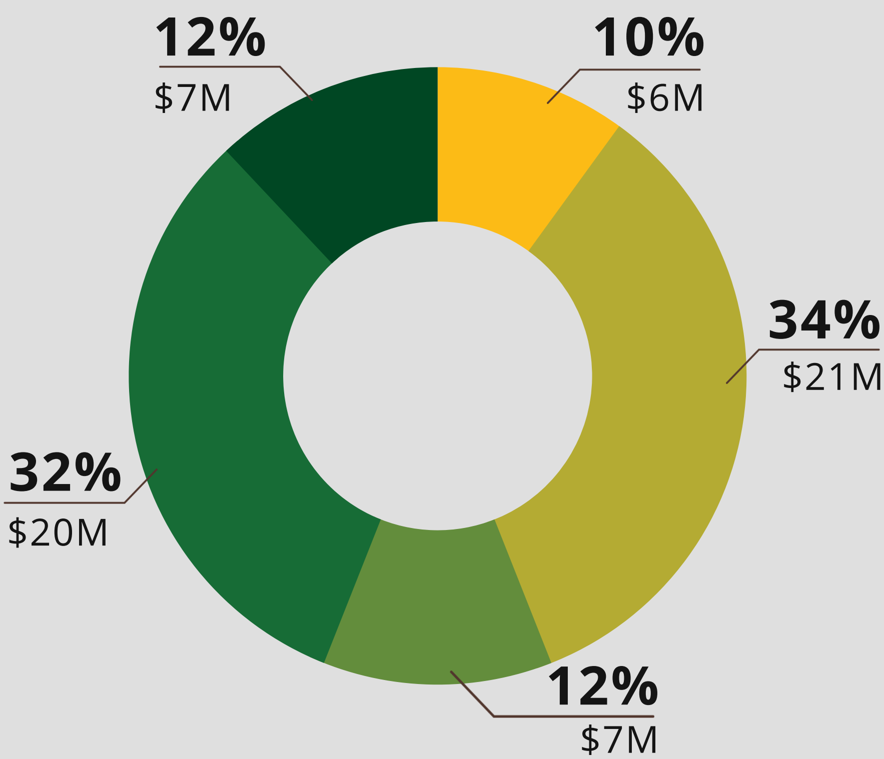
BAY AREA GREEN FUND
DO GOOD WITH YOUR MONEY



Do you know if your bank funds projects that harm the environment?

Most Big Banks Do.

The BAGF finances environmentally sustainable projects and businesses, nothing else.



SUSTAINABLE FOOD SYSTEMS

GREEN REAL ESTATE

ENVIROMENTAL STEWARDSHIP

WASTE REDUCTION

CLEAN ENERGY

TOTAL DEPOSITS & TOTAL LOANS

$61M
TOTAL DEPOSITS

$12M
TOTAL LOANS

WHERE YOU KEEP YOUR MONEY MATTERS.

> This last year was filled with so many challenges - especially for small businesses... the Community Bank PPP team were second to none.
>
> RIANDY ADRADA
> ANDRADA LAW

> It has been a wonderful partnership with Community Bank of the Bay. [They are] a true partner to the mental health of this community.
>
> KATHY CHIVERTON
> DISCOVERY COUNSELING CENTER

> Since becoming a Community Bank of the Bay client we've felt like a big fish in the pond for a change. CBB is not just our bank - [they] genuinely want us to succeed.
>
> INGRID MERRIWETHER
> MERRIWETHER & WILLIAMS

Community BANK OF THE BAY
Different. On Purpose.

> Your promptness and personal attention compared to [big banks] wasting my time the past 3 weeks has been amazing! Thank you for making this so easy.
>
> SCOTT GEHRMAN
> LASTING ADVENTURES

> Community Bank of the Bay truly supports the community, and that is seen in how they act as an organization.
>
> DUANE BAY
> EPA CAN DO

> We could not tour the world without the strong relationships with local small businesses like Community Bank of the Bay.
>
> THOMAS CAVANAGH
> BANDALOOP

BANKING FOR A BETTER FUTURE

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