Exchange Bank

February 27, 2023

Dear Shareholders:

At year-end, it's common for a company to begin the overall assessment of its annual results by first revisiting the assumptions and expectations that were originally forecasted. Each year, Exchange Bank puts significant effort into a robust strategic planning and budgeting process that aligns our short and long-term goals with the economic environment and opportunities that we anticipate for the coming year. Key to this planning process is the forecast of the coming interest rate environment as well as loan and deposit growth opportunities. Of course, each year, and perhaps even more so in the past three years, there are always some surprises. In that regard, 2022 was no different. In contrast to almost all forecasts of interest rate movements at near year-end 2021, and in reaction to inflation that turned out not to be "transitory," during a nine-month period from March - December of 2022, the Federal Reserve hiked interest rates seven times, accounting for a 425-basis point increase in the benchmark Federal Funds rate.

While clearly not forecasted at the beginning of 2022, these rate increases played directly to the core strength of Exchange Bank—our very low cost and loyal deposit base. Leveraging that rising rate environment, the Bank's net interest margin increased from 2.87% in 2021 to 3.01% in 2022. The Bank reported net income for 2022 of $37.48 million, a 2.94% increase over net income of $36.41 million in 2021.

The predominant driver of the Bank's growth in net income was an increase in net interest income. For reference, net interest income is the difference between interest income (interest and fees earned on loans and investments) and interest expense (interest paid on deposits and borrowings). In 2022, net interest income totaled $99.14 million, an increase of 5.97%, or $5.59 million over 2021.

On the income side of this calculation, the rising interest rate environment had the most impact on income generated by the Bank's investment portfolio, an increase of 70.85% from $17.43 million to $29.77 million. In contrast, interest and fees on loans in 2022 were $71.44 million, a decrease of 8.27%, or $6.44 million as compared with 2021. The predominant reason for this decrease can be explained by the diminished amount of PPP loan fees earned in 2022. In 2021, net interest income was positively impacted by PPP loan fees totaling $8.87 million. In 2022, those fees decreased to $2.26 million, a decline of $6.61 million year over year. Additionally, although gross loan originations were up, desired loan growth was not achieved in 2022.

On the expense side of this calculation, while total interest expense increased by 18.10%, that equated to only a $0.32 million increase, from $1.76 million in 2021 to $2.08 million in 2022, demonstrating the strength of the Bank's low-cost core deposits. The Bank's cost of funds at the end of 2021 was a very low 0.05%, ranked in the lowest 9% of peer banks. In the rising interest rate environment of 2022, that cost of funds increased to only 0.06% at the end of the year, improving our ranking to the lowest 4% of peer banks.

EQUAL HOUSING LENDER
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Member FDIC

Recognizing that many forms of commonly earned bank fee income are increasingly being challenged by non-bank competition and regulatory considerations, non-interest income remains a significant driver of profitability at Exchange Bank, mainly due to the Bank's very successful Trust and Investment Management group. While strong headwinds that negatively affected bond and stock prices by as much as 15% during the year diminished the income they earned by $0.46 million in 2022 as compared with 2021, the Trust and Investment Management group still contributed $10.02 million in non-interest income to the Bank's performance. Overall, non-interest income in 2022 was $24.37 million, up 3.06% from 2021. Offsetting the slight decline in trust income was a $1.42 million increase in consumer and business-related usage fees and $828,000 in insurance related settlements.

Non-interest expense increased 13.57% from $64.65 million in 2021 to $73.42 in 2022. The reasons for this increase are clear; just over half (or $4.66 million) of the year-over-year increase in expenses relates to salaries and benefits. The "Great Resignation" that occurred during the pandemic forced most employers, including Exchange Bank, to operate with many positions unfilled. While in some cases the Bank was able to retool processes and create efficiencies, in most cases, production simply suffered and important work necessary to move the Bank forward slowed. In 2022, the Bank was able to fill many of these vacant and necessary positions. Additionally, salary adjustments and increased incentives required to retain valuable employees had a noticeable impact on non-interest expense.

Costs related to technology were the second largest driver of the increase in non-interest expense. In 2018, we began to significantly upgrade our full technology footprint, delivering a best in class, secure and convenient digital banking channel for Exchange Bank customers. In 2019, the Bank converted two separate consumer and business digital platforms into a single mobile and online platform hosted by Q2, a leading nationwide provider. Next, in 2020, we significantly upgraded our core processing system to provide the technological architecture and infrastructure to be able to offer high-level digital products to our customers today and in the foreseeable future. While technology investments do create efficiencies Bank-wide, they also come at a cost. In 2022, software and professional fees related to technology increased $2.50 million to $14.24 million. However, $1.20 million of those increased costs are related to the expiration of vendor subscription credits used in 2021.

Controlling non-interest expenses will be an important priority in 2023. The velocity of technological change is dramatic, and the effects of falling behind in this arena, even for a short time, can have a negative multiplier effect, both in terms of customer satisfaction and costs to catch up. Fortunately, in 2022, the Bank put in place a number of internal initiatives to provide aggressive management and oversight of these costs going forward. We believe our investments in technology are helping the Bank grow without significant new personnel expense. That being said, we acknowledge that our employees are our greatest asset. We will continue to look for ways to recognize and reward their great work while running the Bank in the most efficient manner possible.

In 2022, our operating performance allowed the Bank to pay total dividends of $4.90 per share, up from $4.80 in 2021. Total dividends paid to shareholders amounted to $8.40 million. As is commonly known, 50.44% of the shares of Exchange Bank are owned by the separately controlled Doyle Trust. In 1948, upon the passing of Frank Doyle, the terms of the Trust directed it to distribute the dividend payments it receives from Exchange Bank to the trustees of Santa Rosa Junior College for the primary purpose of funding scholarships to "worthy young men and women attending the Santa Rosa Junior College." In

2022, that dividend payment totaled $4.24 million, and we are very proud to announce that, through the profitability of the Bank over these 74 years, the total amount of dividends paid to the Doyle Trust has exceeded $100 million for the benefit of over 140,000 students.

Moving to the balance sheet, we began 2022 with optimism that we would be able to achieve the steady and high-quality loan growth we have desired for the past few years. Our greatest lever to increase the financial performance of this Bank is to smartly increase our loan portfolio with new outstanding loan commitments. However, we are only willing to do so within our well-defined risk appetite.

In pursuit of these loan growth goals, our commercial loan production increased almost 34.6% in 2022 as compared with 2021 (even when excluding the PPP loans that were funded in early 2021). As well, our residential portfolio loan production increased year-over-year by 13.8%. However, even with the increases in the origination activities of those important groups, overall growth in the loan portfolio in 2022 remained basically flat. This was a product of normal principal paydown, an accelerated level of refinances in a lower interest rate environment in early 2022, and the forgiveness of $57.68 million in PPP loans funded during the pandemic. Our focus again in 2023 is the smart and steady growth of our loan portfolio.

The performance of our loan portfolio in 2022 is the result of this focus on and fidelity to our credit risk appetite. The Bank ended 2022 with a classified asset ratio of just 4.81% and net charge-offs of only $307,000. To further support credit quality within the portfolio, the Bank did not make any provisions for loan losses in 2022 and retains a strong ALLL reserve of 2.88% of outstanding loans at year-end.

As we have talked about in detail in prior shareholder letters, the Bank grew deposits substantially during the pandemic. In 2020, our deposit base grew by $423.57 million, and in 2021 it grew by an additional $400.55 million. This growth was the result of our aggressive PPP funding program to our business customer base and the increased savings activity of both business and consumer customers. We are proud that our customers leaned upon us during these uncertain times.

The unique nature and circumstance of this surge deposit growth made the 2022 budget forecast for deposits challenging. We had never previously experienced that amount of direct governmental support coupled with a dramatic increase in the savings rates of both business and consumer customers. In late 2021, we expected the surge deposits to start naturally exiting the Bank as the economy was forecasted to normalize. Businesses and consumers were expected to spend money again. As noted previously, that did not occur, and through the third quarter of 2022, the Bank's deposits remained mostly flat, hovering around the $3.2 billion mark as global uncertainty did not abate and our customers continued to spend less and save more. Finally, in October of 2022, and most likely attributable to the five interest rate hikes totaling 300 basis points that had already occurred in 2022, our surge deposits began to show signs of mobility. Total deposits ended the year 2022 down 3.55%, or $112.84 million. This decrease in deposits was slightly less than the $175 million decrease we had forecasted for the year. As the Federal Reserve continues to present a strong inflation-fighting posture and more, but smaller, interest rate hikes are predicted in the near-term, it is possible that pricing pressures will continue to create some amount of runoff of our surge deposits due to their unusual nature.

At the beginning of 2022, using what we considered to be reasonable and reliable forecasts for the interest rate environment for the upcoming 12 months, we projected only slight interest rate increases across the board. Flush with surge deposits that we were unable to put to use in the loan portfolio, and dissatisfied with the liquid, but very low Fed overnight rate, we began to carefully move excess cash into our investment portfolio in the form of high-quality investments with reasonable durations. As always, we made this decision with the primary consideration of maintaining more than adequate liquidity. In the first quarter of 2022, we purchased $270.54 million in securities. As the interest rate environment became more uncertain, we slowed the pace of purchases to $47.72 million in the second quarter and to $59.22 million early in the third quarter. No purchases were made in the fourth quarter. This activity resulted in growth of the investment portfolio by $168.40 million after scheduled portfolio principal reductions. Note that this activity contributed toward a $12.35 million, or 70.85%, increase in interest income derived from the investment portfolio in 2022.

In order to maintain and maximize our liquidity options, from an accounting standpoint, the Bank made the choice to hold the securities within our investment portfolio as Available for Sale (AFS) as compared with Held to Maturity. Accounting rules dictate that securities that are held AFS must be marked to their market price. Increases or decreases in the market value of AFS securities become either unrealized gains or unrealized losses and are accounted for on the balance sheet, net of deferred taxes, as Accumulated Other Comprehensive Income (AOCI). Securities with unrealized gains create a lift to AOCI and, in turn, increase book equity. Securities with losses have the opposite effect. Increases or decreases in the market value of securities, and thus in AOCI, are mainly driven by two factors—underlying credit issues in an individual security and the movement of interest rates. Regarding the movement of interest rates, the longer the duration of the investment, the more the market value of the security will be impacted by rising or lowering rates.

The dramatic increase in interest rates in 2022 has significantly impacted the book capital of banks that have investment portfolios with AFS securities held on their balance sheets, which is the majority of banks in the United States. Even though the duration of Exchange Bank’s investment portfolio is lower than peer average, because of the Bank’s larger than typical investment portfolio, the negative impact to AOCI and thus to our book capital is material. We note that while the Bank earned net income of $37.48 million in 2022 and booked $29.08 million of that as retained capital, our book equity decreased $117.2 million, or 36.71% since December 31, 2021. The Bank has no known credit issues in the investment portfolio at this time. This decrease in book equity is due only to the unrealized losses, accounted for through AOCI, on the Bank’s investment portfolio. We believe this to be temporary in nature.

In 2015, banking regulators determined that the volatile nature of AOCI created swings in book capital that were not necessarily indicative of the overall health of a bank. At that time, banks not defined as “advanced approaches institutions” were given the opportunity to permanently exclude gains and losses on securities held AFS from AOCI when calculating common equity tier one capital. Like the vast majority of banks given this option, Exchange Bank chose this path. Therefore, although book capital has decreased significantly by 36.71%, regulatory capital actually increased by 8.90%. The Bank’s capital ratios remain well in excess of the regulatory minimums to be considered “well-capitalized.” As of December 31, 2022, the Bank reported total risk-based capital of 19.54% and tier one capital of 18.27%

Critical to understanding the impact of this large decrease in book capital caused by rising interest rates and its effect on the investment portfolio, is the following statement:

The Bank has the intent and the ability to hold the securities in the investment portfolio until maturity. We expect full collection of the carrying amount of these securities, and therefore we do not expect to recognize these unrealized losses.

Noted earlier in this letter was the statement that the Bank places a very high focus on maintaining more than adequate liquidity and strong asset quality. Having adequate liquidity sources is the best defense against the possibility of having to realize any unrealized losses in the investment portfolio. As of December 31, 2022, the Bank had in excess of $1.0 billion in accessible liquidity.

The two most common measurements of bank performance, taking into consideration both the income statement and the balance sheet, are the Return on Average Assets (ROAA) and the Return on Average Equity (ROAE). ROAA is calculated by dividing net operating income by the average of assets over the same period. ROAE is calculated by dividing net operating income by the average of equity over the same time. In this current economic environment, both calculations pose interesting challenges when comparing them with historical bank performance.

As mentioned previously, mostly due to customer behavior during the pandemic, the Bank grew deposits by just over $824 million in the past two years. However, some unknown portion of these deposits will ultimately be transitory and may not be relied on as core deposits. This changes the strategy the Bank considers when deploying these liabilities into earning assets, causing the Bank to take a more conservative approach, focusing on high-quality investments at appropriate durations. While ROAA was a reasonable 1.08%, it can be said that it was negatively impacted by our surge deposits.

Many would suggest that ROAE is the better gauge of a bank's performance. But as was just discussed, the Bank's book equity has been significantly reduced by the effects of holding our investment portfolio as AFS. This diminution of book equity inflates the Bank's ROAE, making it appear as though the Bank performed much better than it actually did (due to earning the same amount of income while leveraging less equity). The calculation using book equity inflates the Bank's ROAE to 15.24%. We believe that the most appropriate measure of ROAE, and of the Bank in general, utilizes average regulatory capital (equity) as the denominator of the calculation. The investment portfolio is embedded with unrealized losses that will reverse as individual securities move toward their maturities. As previously noted, we have the intent and ability to hold our investment portfolio to maturity, collecting the full carrying amount. Therefore, a calculation utilizing regulatory capital provides a much more reasonable, accurate and comparable alternative ROAE of 11.01%

Earlier in this letter, we briefly reported on the significant non-interest income contribution that comes from our Trust and Investment Management group. This group, originally formed at Exchange Bank in 1963, consists of 27 highly-skilled financial professionals in three offices in northern California—Santa Rosa, Roseville and Los Altos. The services they provide, including trust administration, investment management, estate settlement and retirement accounts, are essential to our role as a full-service community bank. We are very proud to announce that we will be opening a fourth office later this summer in San Rafael. We believe that our suite of products and style of service perfectly fit the

Marin County community, and we look forward to developing new relationships. Especially within Trust and Investment Management, the personal connections forged with our customers—often solidified when families find themselves in difficult times or uncharted waters—remind us that our business will always be driven by people and personal relationships.

While our focus is and will always be on personal relationships, we acknowledge that technology continues to be the biggest driver in the financial industry. This is especially true for community banks like Exchange Bank who put such a high value on providing personalized service. We know that we must provide each of our unique customers with the ability to bank with us how they want, when they want and where they want. That means we must maintain drive-through banking options (with dog treats at the ready), while also maintaining a cutting-edge suite of always-on digital products for both our consumer and business customers who prefer to interact with us remotely and at all times of the day and night. As noted earlier, this technology footprint is not inexpensive, but we acknowledge that we must continually meet the expectations of a changing market. Our commitment is to maintain a suite of digital products that effectively compete against the biggest banks while concurrently providing a community banking experience. In support of this commitment, in 2022 we added the payment service Zelle to our product line and introduced an on-line appointment scheduler to efficiently meet the banking needs of our customers. As other digital products and services that will better serve our customers become available, we will continually evaluate them for their ability to deliver a more robust customer experience in a safe and secure manner.

The safety and security of our customers is our primary focus on all of our digital banking platforms. We take this responsibility seriously, and we continually commit significant resources to provide a robust level of cybersecurity protection, both in terms of technology and people. We utilize both in-house and third-party expertise to provide multiple layers of protection to our customers' data and transactions. As well, we work with our customers to promote good cybersecurity habits realizing that, as their trusted community banker, our responsibility is to help protect them.

We realize that our employees take responsibility for their customers beyond just transactional interactions. This is essentially what sets our employees apart. While our team members may be bankers, before that they are community leaders, civic-minded volunteers, friends, neighbors and family. Working at Exchange Bank isn't simply a job; it is a commitment to the betterment of our community. Our employees take great pride in the mission and history of the Bank, the legacy of the Doyle family, the Bank's philanthropic activities (including $798,000 in local donations in 2022), and maybe most importantly, their teammates' extraordinary level of community volunteerism. Simply said, volunteerism is an integral part of the culture at Exchange Bank. We are proud to note that we currently have 60 Exchange Bank employees who serve on 72 different nonprofit boards, and our employees as a whole volunteer with 138 charitable organizations, donating 3,875 hours of their time either serving on these boards or working behind the scenes to deliver needed services to our community members. For that, and many other reasons, Exchange Bank was named a *Sonoma County Best Place to Work* by the North Bay Business Journal for the 17th year in a row.

The spirit of volunteerism runs deep within Exchange Bank, passed down from our co-founder Frank Doyle. While most people in our community know of Frank Doyle through his visionary philanthropic act of bequeathing his controlling shares of Exchange Bank to the Doyle Trust in 1948 for the benefit of thousands upon thousands of students attending Santa Rosa Junior College, some don't realize that he is also considered the "Father of the Golden Gate Bridge." In the 1930s, Frank realized that the economic future of Northern California counties, mostly timber and agriculture at that time, was tied to the ability to better access San Francisco. He became the leading proponent of building the Golden Gate Bridge, and 100 years ago on January 13, 1923 he organized and led the first meeting of the Bridging the Golden Gate Association in Santa Rosa with business and government leaders from all over Northern California. Frank became the driving force behind the political, financial and public efforts to build the Golden Gate Bridge. Some thought that it could never be done; they clearly didn't know Frank Doyle. When construction was completed in 1937, he was honored as the first civilian to drive a car across the Golden Gate and down Doyle Drive. Frank's vision and dedication to our community still continues to inspire our employees 100 years later.

In our 132-year history, Exchange Bank has been extraordinarily lucky to be closely associated with influential community leaders. Carlos Tamayo was one of those individuals, and we were so very sad when he passed away in July of 2022. Carlos was a member of the Bank's Board of Directors for 15 years, retiring in 2019. Every day he brought his wise business acumen, deep commitment to our community and intellectual curiosity to his leadership role at the Bank. A proud self-described "non-banker," Carlos and his family started the very successful La Tortilla Factory in Santa Rosa in 1977, building it into a large and important employer in Sonoma County. His perspective as a business and community leader was important in helping Exchange Bank grow, while maintaining our focus of serving all members of our community.

Yet again, 2022 was a challenging, but ultimately financially successful year for Exchange Bank, and we are proud of how we adapted to and overcame those challenges. The community banking industry is rapidly changing. Our competition is multi-faceted, coming from regional and national banks as was historically the case, but now also from FinTech start-ups and investment houses. Even so, we know there remains an important place in this country for strong and secure community banks like Exchange Bank. Our focus continues to be our customers and our community. We were there for our local businesses and nonprofits with $383 million PPP loans in 2020 and 2021, and again in 2022 to safeguard deposits in uncertain economic times. For 132 years, we have existed to serve our customers and our community, and we look forward to the opportunities that 2023 will bring us all.

On behalf of the Board of Directors and our employees, we thank you, our shareholders, for your support of Exchange Bank in 2022. After three consecutive years of holding our annual meeting in a virtual format, we look forward to the return of an in-person meeting on April 21, 2023. If you are unable to attend, we would request your proxy vote be given to management. In the interim, if you have any specific questions you would like answered, please direct them in writing to:

Marlene Soiland
Corporate Secretary
Exchange Bank
P.O. Box 403
Santa Rosa CA 95402

You may also contact the Chairman directly via e-mail at: bill.schrader@exchangebank.com.

We look forward to a successful 2023, and the expectation of seeing you again in person this April.

Sincerely,

William R. Schrader
Chairman of the Board

Troy J. Sanderson
President and Chief Executive Officer

EXCHANGE BANK
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 21, 2023

The Annual Meeting of the Shareholders of Exchange Bank, a California corporation (the "Bank"), will be held at the Andrew J. Shepard Building Administrative Services Building, 444 Aviation Boulevard, 2nd Floor, Santa Rosa, CA 95403, on Friday, the 21st day of April, 2023, at 2:00 p.m., (Pacific Time), for the following purposes:

1. To elect members of the Board of Directors.
2. To ratify the Bank's appointment of its independent auditor.
3. To transact such other business as may properly be brought before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on February 21, 2023, as the record date for the determination of the shareholders entitled to notice of, and to vote at, the meeting. Accordingly, only shareholders of record at the close of business on that date will be entitled to vote at the meeting, or any adjournments thereof.

TO ENSURE YOUR REPRESENTATION AT THE MEETING, THE BOARD OF DIRECTORS OF THE BANK REQUESTS THAT YOU TO MARK, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE, OR, ALTERNATIVELY, TO VOTE YOUR SHARES BY TELEPHONE OR INTERNET BY FOLLOWING THE INSTRUCTIONS PROVIDED ALONG WITH YOUR PROXY CARD. YOUR PROXY MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED. IF YOU ARE ABLE TO ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY WITHDRAW YOUR PROXY AND DO SO.

We encourage you to review all of the important information contained in the attached proxy statement before voting. Please contact Kathy Sutliff, at 707-524-3121 if you would like information on how to obtain directions to be able to attend the meeting and vote in person.

Date: February 27, 2023

By Order of the Board of Directors

Exchange Bank
545 4th Street
Santa Rosa CA 95401

EXCHANGE BANK
545 4TH STREET
SANTA ROSA CA 95401

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 21, 2023

This Proxy Statement is furnished to shareholders of Exchange Bank (the "Bank") in connection with the solicitation of proxies by the Board of Directors of the Bank for the Annual Meeting of Shareholders to be held at the Andrew J. Shepard Building Administrative Services Building, 444 Aviation Boulevard, 2nd Floor, Santa Rosa, CA 95403, on Friday, April 21, 2023, at 2:00 p.m. (Pacific Time), and any adjournments or postponements thereof, which we refer to as the "meeting" or "Annual Meeting". This Proxy Statement and form of Proxy enclosed herewith are being sent to the shareholders of the Bank entitled to vote at the Annual Meeting on or about February 27, 2023.

General Information about the Meeting and Voting Securities and Procedures

Who may vote at the meeting?

The Board of Directors has fixed the close of business on February 21, 2023 as the record date for the determination of shareholders who are entitled to notice of and to vote at the meeting. You are entitled to one vote for each share of common stock you held on the record date, including shares:

- held directly in your name; and/or
- held for you in an account with a broker, bank or other nominee.

How many shares must be present to hold the meeting?

The presence at the meeting of a majority of the Bank's common shares entitled to vote at the Annual Meeting shall constitute a quorum for purposes of holding the meeting and conducting business. On the record date there were 1,714,344 shares of the Bank's common stock outstanding. Each of the holders of the outstanding shares, totaling 1,714,344 shares, are entitled to one vote per share. Your shares are counted as present at the meeting if you:

- are present and vote in person at the meeting; or
- have properly submitted a proxy card prior to the meeting via mail, telephone or internet.

What proposals will be voted on at the meeting?

There are two proposals scheduled to be voted on at the meeting: (i) the election of members to serve on the Bank's Board of Directors and (ii) the ratification of the selection of our independent auditor.

Who is requesting my vote?

The solicitation of proxies on the enclosed form is made on behalf of the Board of Directors of the Bank and will be conducted through the mail. Please mail your completed proxy in the envelope included with these proxy materials. The cost of preparing, assembling and mailing this Proxy Statement, the Notice of Meeting and the enclosed Proxy will be borne by the Bank.

How many votes are required to approve each proposal?

Proposal One:

Because the election of Directors is determined by a plurality, the nominees receiving the most votes "FOR" will be elected.

In connection with the election of directors, shares may be voted cumulatively if a shareholder present at the meeting gives notice at the meeting, prior to the voting for election of directors, of his or her intention to vote cumulatively. If any shareholder of the Bank gives such notice, then all shareholders eligible to vote will be entitled to cumulate their shares in voting for election of directors. Cumulative voting allows a shareholder to cast a number of votes equal to the number of shares held in his or her name as of the record date, multiplied by the number of directors to be elected. These votes may be cast for any one nominee or may be distributed among as many nominees as the shareholder sees fit. If cumulative voting is declared at the meeting, votes represented by proxies delivered pursuant to this proxy statement may be cumulated in the discretion of the proxyholders, in accordance with management's recommendation.

Proposal Two:

The affirmative vote of a majority of the votes cast by holders of the Bank's common stock is required to approve Proposal Two, to ratify the appointment of the independent auditor.

How does the Board recommend that I vote?

The Board of Directors urges you to read the Proxy Statement carefully and then vote your shares. The Board of Directors recommends that you vote **FOR** each of the Director nominees named in this Proxy Statement and **FOR** Proposal Two, to ratify the appointment of the independent auditor.

How are shares voted?

For Proposal One, a shareholder may:

- Vote "FOR" each of the nominees for election to the Board of Directors
- "WITHHOLD" authority for each nominee for election to the Board of Directors.

For Proposal Two, a shareholder may:

- Vote "FOR" the proposal
- Vote "AGAINST" the proposal
- Abstain from voting on the proposal

If the accompanying proxy is properly signed and returned and is not withdrawn or revoked, the shares represented thereby will be voted in accordance with the specifications thereon. If the manner of voting such shares is not indicated on the proxy, the shares will be voted **FOR** the election of the nominees for Directors named herein and **FOR** the ratification of the appointment of the independent auditor. Your shares will also be voted in the discretion of the Board of Directors on any other business properly brought before the meeting.

How do I vote my shares?

Whether you hold shares directly or in "street name", you may direct your vote without attending the Annual meeting. If you are a shareholder of record, you may vote by granting a proxy as follows:

- By Mail - You may vote by mail by signing and dating your proxy card and mailing it in the envelope provided. You should sign your name exactly as it appears on the proxy card. If you are signing in a representative capacity (for example, as guardian, trustee, custodian, attorney or officer of a corporation), you should indicate your name and title or capacity. Proxies submitted by mail must be received by Computershare, the Bank's stock transfer agent, prior to the vote taken at the Annual Meeting.

- By Phone or Internet – you may vote by phone or internet by following the instructions provided by Computershare along with your proxy card.

For shares held in "street name", you should follow the voting instructions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in some cases, submit voting instructions by telephone or the internet. If you provide specific voting instructions by mail, telephone, or internet, your broker or nominee will vote your shares as you have directed.

Even if you plan to attend the meeting, we encourage you to submit your proxy by mail so your vote will be counted if you later decide not to attend the meeting.

If you choose to vote at the Annual Meeting:

- If you are a shareholder of record, to vote your shares at the meeting you should bring the enclosed proxy card and proof of identity.

- If you hold your shares in "street name," you must obtain a proxy in your name from your bank, broker or other holder of record in order to vote at the meeting and bring proof of beneficial ownership (such as a recent brokerage statement or a letter from your bank or broker) and proof of identity.

What does it mean if I receive more than one proxy?

It likely means you hold shares registered in more than one account. To ensure that all of your shares are voted, sign and return each proxy. You may also vote each proxy by telephone or online.

May I change my vote?

Yes. You may revoke your proxy at any time prior to the voting thereof by filing with the Corporate Secretary of the Bank at the Bank's principal office at 545 4th Street, Santa Rosa, CA 95401, a written revocation or a duly executed proxy bearing a later date. Any such revocation must be executed prior to 2:00 p.m. (Pacific Time) on the day of the Annual Meeting. A shareholder may also withdraw the proxy in person at the meeting at any time before it is exercised. The presence of a shareholder at the Annual Meeting, however, will not automatically revoke such shareholder's previously submitted proxy.

When will the proxy and annual report be mailed to shareholders?

This Proxy Statement and the accompanying Notice of Annual Meeting of Shareholders and Consolidated Financial Statements are being mailed to the Bank's shareholders on or about February 27, 2023.

PROPOSAL ONE
ELECTION OF DIRECTORS
INFORMATION CONCERNING NOMINEES FOR ELECTION AS DIRECTORS

The Bank currently has ten Directors, all of which are slated for election. Each of the nominees for election presently serves on the Board of Directors and is being nominated to serve a one-year term. The Board of Directors has no reason to believe that any nominee will be unable to serve as a Director, if elected. However, in the event any nominee should become unavailable for election, the proxy will be voted for such substitute, if any, as the Board of Directors may designate, or the Board of Directors may choose to reduce the number of directors to be elected at the Annual Meeting.

Set forth below are the names of the ten persons nominated by the Board of Directors for election as Directors of the Bank at the Annual Meeting, along with certain other information concerning such persons.

Name and Year First Became Director	Age	Position Held Within the Bank	Principal Occupation or Employment During the Past Five Years and Education Pertaining to Board of Director Qualifications
Bruce E. DeCrona, 2014	68	Director	Retired, Banker
Steven G. Dutton, 2014	56	Director	President and Co-Owner, Dutton Ranch Corp.
Gary T. Hartwick, 2014	68	Director	Retired, Banker
Eric D. McHenry, 2021	64	Director	Retired Executive
Deborah A. Meekins, 2018	70	Director	Retired, Banker
James M. Ryan, 1997	64	Director	President, Ryan Mortgage Company
Troy J. Sanderson, 2021	58	Director	President & CEO
William R. Schrader, 2008	72	Director	Retired, Banker
Marlene K. Soiland, 1997	67	Director	President & CEO, Soiland Management Company
Gregory S. Steele, 2020	62	Director	Retired, Technology Executive

Additional information regarding the ten nominees for election to the Board of Directors is as follows:

Bruce E. DeCrona *Retired, Banker*
Mr. DeCrona was appointed to the Board in 2014 and serves as the Board's Audit Committee chair. He also serves on the Board's Compensation/Management Succession, Technology, and Trust Committees. Mr. DeCrona retired from Exchange Bank in 2013 after serving nearly 18 years in the roles of chief financial officer and chief operating officer. Before that he worked for 19 years at First Interstate Bank in Nevada and Arizona, prior to the bank's purchase by Wells Fargo Bank. He is a graduate of the University of Nevada as well as the Pacific Coast Banking School. Mr. DeCrona is involved with the Luther Burbank Center for the Arts and has been an active volunteer for several other organizations, including the Council on Aging.

Steven G. Dutton *President and Co-owner, Dutton Ranch Corp.*
Mr. Dutton was appointed to the Board in 2014 and currently serves on the Board's Community Reinvestment Act, Loan, and Trust Committees. He is a fifth-generation Sonoma County farmer and lifelong resident of Sebastopol. He is partners with Dan Goldfield in Dutton-Goldfield Winery and is also partners with his brother in Dutton Ranch Corp. and Dutton Bros. Farming. Mr. Dutton is actively involved in the agricultural community, contributing to many local associations and Boards. He is past president and current Board member of the Sonoma County Farm Bureau, past president and Board member of the Sonoma County Farm Bureau Foundation, president of the Russian River Valley Winegrowers Foundation, past Board member of the Sonoma County Farm Trails, and is a member and chair of the Santa Rosa Junior College Viticulture Advisory Committee.

Gary T. Hartwick *Retired, Banker*
Mr. Hartwick was appointed to the Board in 2014. He joined Exchange Bank in 2009 and has served as chief credit officer and chief operating officer. He became president and chief executive officer in 2014 and held that position until his retirement in 2021. He serves as chair of the Board's Loan Committee and also serves on the Community Reinvestment Act and Trust Committees. Mr. Hartwick is a seasoned banker with over 44 years of experience, including top level executive responsibility in areas of credit, budgeting, asset and liability management and strategic planning. He is a graduate of California State University Sacramento and the Pacific Coast Banking School. His community activities included serving as a Board member for the Volunteer Center of Sonoma County and the Redwood Empire Food Bank. He is a former Advisory Board member for the Boys & Girls Club of South Sonoma and Marin Counties, and a former member of the Board at the Luther Burbank Center for the Arts.

Eric D. McHenry *Retired Executive*
Mr. McHenry was appointed to the Board in 2021 and serves as the chair of the Board's Technology Committee. He recently retired from the City of Santa Rosa where from 2005 to 2021 he served as their chief information officer and director, Information Technology Department. He has extensive experience in technology management and business leadership from his career with Agilent and Hewlett Packard where he held the position of vice president and general manager. Mr. McHenry currently serves as Board president of Robert Ferguson Observatory, and is a past Board member at the Redwood Empire Food Bank and KRCB North Bay Public Media.

Deborah A. Meekins *Retired, Banker*
Ms. Meekins was appointed to the Board in 2018 and serves as chair of the Board's Community Reinvestment Act and Compensation/Management Succession Committees. She also serves on the Audit and Technology Committees. Before retiring, Ms. Meekins served as the chief executive officer of Sonoma National Bank, executive vice president and retail banking director, chief production officer and California market president of Sterling Savings Bank from 1985 to 2012, and most recently as president and chief executive officer of Poppy Bank from 2012 to 2018. Ms. Meekins is the past chair of the Santa Rosa Chamber of Commerce, United Way, Santa Rosa Memorial Hospital Foundation, and the Rose Parade. She currently serves as the chair of Providence Santa Rosa Memorial Hospital's Community Board and Board member for the California Bankers Association.

James M. Ryan *President, Ryan Mortgage Company*
Mr. Ryan was elected to the Board in 1997 and is vice-chairman. In 2007, Mr. Ryan was named a Doyle Trustee. Mr. Ryan serves on the Board's Audit, Community Reinvestment Act, Compensation/Management Succession, Governance/Nominating, Loan, and Trust Committees. He is a graduate of California State University Sacramento and is a licensed real estate broker, certified public accountant (inactive) and a licensed general contractor. Mr. Ryan is the owner and president of both Ryan Mortgage Company, Inc. and Ryan Realty, Inc. in Santa Rosa. He serves on the Scholarship Committee at the Santa Rosa Junior College and on the Board of Directors of PEP Housing, a non-profit developer of affordable housing for seniors and veterans. He has also served as a director of the American Red Cross, Sonoma County Chapter, and numerous trade associations.

Troy J. Sanderson *President and CEO, Exchange Bank*
Mr. Sanderson was appointed to the Board and as president and chief executive officer in 2021. He also serves on the Board's Community Reinvestment Act, Loan, Technology, and Trust Committees. Mr. Sanderson joined Exchange Bank in 2018, and previously served as executive vice president and chief banking officer. He is a seasoned banker with over 30 years in commercial, mortgage and consumer lending, appraisal, training and development, retail banking, credit administration and executive leadership. Prior to joining Exchange Bank, he was executive vice president and chief credit officer of Bank of Rio Vista from 2011 to 2015, and that bank's president from 2015 until it was sold in 2018. A Sonoma County native, his family roots in the community go back over 100 years. Mr. Sanderson served for 10 years as an elected member of the Board of Education of the Petaluma City Schools District and is a past president of Petaluma National Little League. He currently serves on the Board for the Redwood Empire Food Bank and is a member of the American Bankers Association Government Relations Council. He holds a Bachelor's degree in Business Administration from California State University, Sacramento and graduated with honors from the Pacific Coast Banking School at the University of Washington.

William R. Schrader *Retired, Banker*
Mr. Schrader was appointed to the Board in 2008. He joined Exchange Bank in 1978 and has served as senior loan officer and chief operating officer, and was president and chief executive officer from 2008 to 2014 when he retired from the Bank. Today, he serves as chairman of the Board and also serves on the Board's Audit, Community Reinvestment Act, Compensation/Management Succession, Governance/Nominating, Loan, Technology, and Trust Committees. In 2020, he was named a Doyle Trustee. Mr. Schrader is a graduate of St. Mary's College and received his master's from Golden Gate University. He is also a graduate of the

Pacific Coast School of Banking. Mr. Schrader currently serves as a director for the Family Justice Center and his past community involvement includes Board chair and director positions for the YMCA, Santa Rosa Diocesan School Board, Hanna Boys Center, NAMI, Santa Rosa Community Health Center, California Bankers Association and past vice-chair for the Committee for the Shelterless (COTS). He also serves on the Scholarship Committee at the Santa Rosa Junior College and has past service on advisory Boards for Roseland University Prep High School, Sonoma State University's Graduate School of Business and Healdsburg Boys and Girls Club.

Marlene K. Soiland *President and CEO, Soiland Management Company*
Ms. Soiland was appointed to the Board in 1997 and is corporate secretary and chair of the Board's Trust Committee. Ms. Soiland also serves on the Board's Audit, Community Reinvestment Act, Compensation/Management Succession, Governance/Nominating, Loan, and Technology Committees. After graduation from Cal Poly in San Luis Obispo, she returned to Santa Rosa and her family business. She is currently president and owner of Soiland Management Co., Inc. Ms. Soiland is past president of the Sonoma County Alliance and currently serves on their Board and their Environmental and Small Business Grant Opportunities Committees. She has also been involved in several other community groups such as Sonoma County Innovation Council, Institute for Family Business, and Community Foundation Sonoma County.

Gregory S. Steele *Retired, Technology Executive*
Mr. Steele was appointed to the Board in 2020 and serves as chair of the Board's Corporate Governance and Nominating Committee. He also serves on the Board's Audit Committee and Tech Committee. Mr. Steele served as the chief executive officer of Nelson Staffing Sonoma from 2003 to 2005, chief operating officer of Advanced Fibre Communications from 1998 to 2001, and senior vice president of operations and engineering at Enphase Energy in Petaluma from 2008 to 2017. Mr. Steele has a long history of community service in Sonoma County. He has chaired the United Way of Sonoma County, the Wells Fargo Center for the Arts, and is currently Board president for the Children's Museum of Sonoma County. He also served on the Board for Catholic Charities of the Diocese of Santa Rosa and served as capital campaign co-chair for the Caritas Village Capital Campaign.

None of the directors listed above have been a party to bankruptcy, criminal or regulatory proceedings in the prior 5 years.

The Board of Directors unanimously recommends to the Shareholders a vote "FOR" the election of the above-listed persons as Directors for the Bank.

PROPOSAL TWO
NON-BINDING ADVISORY VOTE ON THE APPOINTMENT OF THE INDEPENDENT AUDITOR

The Audit Committee of the Board of Directors proposes and recommends that the shareholders approve the selection by the Committee of the firm of Crowe LLP to serve as the Bank's independent auditor for the 2023 fiscal year. The firm has served as independent auditors for the Bank since 2011. While not legally required, the Board is asking shareholders to ratify the Audit Committee's selection in order to give the shareholders a voice in the designation of auditors. If the resolution approving Crowe LLP as the Bank's independent auditor is rejected by the shareholders, the Committee will reconsider its choice of independent auditors. Even if the resolution is approved, the Audit Committee, in its discretion, may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Bank and its shareholders.

Proxies in the form solicited hereby which are returned to the Bank will be voted in favor of this non-binding proposal unless otherwise instructed by the shareholder. The affirmative vote of a majority of the shares of common stock cast at the meeting, in person or by proxy, and entitled to vote thereon is required to approve Proposal Two.

The Board of Directors unanimously recommends to the Shareholders a vote "FOR" the non-binding advisory proposal to approve the appointment of the Bank's independent auditor.

INFORMATION CONCERNING NON-DIRECTOR EXECUTIVE OFFICER

Shari J. DeMaris *Executive Vice President and CFO, Exchange Bank*
Ms. DeMaris joined Exchange Bank in October 2020 and was named Executive Vice President, Chief Financial Officer in January, 2021. She brings 25 years of technical accounting and financial leadership experience and is a licensed CPA. Previously, Ms. DeMaris held leadership roles at several public accounting and financial institutions including Hills Bank and Trust Company from 2005 to 2020, acting as chief financial officer from 2012 to 2020. She holds bachelor's degrees in both Accounting and Spanish from DePaul University and the University of Iowa, respectively. Active in the community, Ms. DeMaris serves on the Board of the Santa Rosa Symphony, including the Finance and Audit Committees, and recently joined the Impact 100 Redwood Circle.

None of the executive officers were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Bank acting within their capacities as such. There are no family relationships between any of the directors and executive officers of the Bank. There are no material proceedings to which any executive officer of the Bank or any associate of any executive officer of the Bank is a party or has an interest materially adverse to the Bank.

TRANSACTIONS WITH DIRECTORS AND OFFICERS

The Bank has had and expects in the future to have banking transactions in the ordinary course of its business with some of its Directors and Officers and their associates, including transactions with corporations or partnerships of which such persons are directors, officers, controlling shareholders, or partners on substantially the same terms (including interest rates and collateral) as those prevailing for comparable transactions with others. Management believes that in 2022 such transactions did not involve more than the normal risk of collectability or present other unfavorable features.

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

Board of Directors of the Bank

The Board of Directors of the Bank meets on a regularly scheduled basis. During 2022, the Board of Directors of the Bank held an annual meeting, one special meeting and twelve regular meetings. During 2022, all Directors of the Bank attended at least seventy-five percent of the total number of meetings of the Board and all of the committees to which such Directors were appointed. Although the Bank does not have a formal policy regarding attendance by Directors at annual shareholder meetings, such attendance is encouraged. In 2022, all of the Bank's Directors attended the annual shareholders' meeting.

The composition of the Board committees as of December 31, 2022 is shown in the following table:

Director Name	Corporate Governance & Nominating	Audit	CRA	Compensation	Loan	Technology	Trust
Bruce E. DeCrona (I)		Chair (A)		X		X	X
Steven G. Dutton			X		X		
Gary T. Hartwick			X		Chair		X
Eric D. McHenry (I)						Chair	
Deborah A. Meekins (I)		X	Chair	Chair		X	
James M. Ryan (I)	X	X (A)	X	X	X		X
Troy J. Sanderson			X		X	X	X
William R. Schrader (I)	X	X	X	X	X	X	X
Marlene K. Soiland (I)	X	X	X	X	X	X	Chair
Gregory S. Steele (I)	Chair	X				X	

(I) Independent Director
(A) Audit Committee Financial Expert
Chair Committee Chair
X Committee Member

The Board of Directors has established the Corporate Governance and Nominating Committee consisting of four non-employee Directors whom are considered to be independent as defined under the rules of the FDIC and other applicable laws and regulations. The Corporate Governance and Nominating Committee assists in identifying individuals qualified to become Board members, recommends nominees for director, recommends the corporate governance guidelines applicable to the Bank, oversees an annual review of the Board's performance, recommends director nominees for each committee, recommends a determination of each outside director's "independence" under applicable rules and guidelines, oversees the Bank's engagement with shareholders and other interested parties concerning governance and other related matters, and oversees reputation risk related to the Committee's responsibilities. The Corporate Governance and Nominating Committee held two meetings in 2022. The Board of Directors has adopted a written charter for the Corporate Governance and Nominating Committee.

The Board of Directors of the Bank has established an Audit Committee. The Audit Committee is responsible for the engagement of the external audit firm and reviews the scope and results of the audits, the Bank's internal accounting controls and the professional services furnished by the independent auditor. All six members of the Audit Committee are "independent" as defined under the rules of the FDIC. Due to their experience as noted above, the Board has determined that Directors DeCrona and Ryan qualify as Audit Committee Financial Experts under applicable regulations. The Audit Committee met five times in 2022.

The Board of Directors of the Bank has established the Community Reinvestment Act Committee. The Community Reinvestment Act Committee is responsible for establishing an effective program to balance regulatory risk management, promotion of community well-being and development of profitable business through meeting community needs. The Community Reinvestment Act Committee met one time in 2022.

The Board of Directors of the Bank has established a Compensation and Management Succession Committee. The Compensation and Management Succession Committee establishes and monitors effective compensation packages for Bank management and the Board. The Compensation and Management Succession Committee met three times in 2022.

The Board of Directors of the Bank has established a Loan Committee. This Committee reviews and approves loans that are outside of the authority of Bank management's Loan Committee. The Loan Committee met four times in 2022. In addition, the Loan Committee frequently reviewed and approved loans via virtual vote.

The Board of Directors of the Bank has established a Technology Committee. The Technology Committee is responsible for reviewing the technical budget and projections, and being the Board's liaison for matters affecting the Bank's technology. The Technology Committee met four times in 2022.

The of Board of Directors of the Bank has established a Trust Committee. The Trust Committee oversees the activities of the Bank's Trust Department to assure that the department is administered in accordance with applicable laws and regulations and sound fiduciary principles. The Trust Committee met four times in 2022.

Directors Compensation Table

The following table provides information concerning the compensation of all the Directors other than Director Sanderson for the fiscal year ended December 31, 2022. Compensation information for Director Sanderson is discussed below in the section captioned "Summary of Cash and Certain Other Compensation Paid to Executive Officers."

Name	Fees or Earnings Paid in Cash ($)(1)	Other Compensation ($)	Total ($)
Bruce E. DeCrona	$ 100,000	$ -	$100,000
Steven G. Dutton	100,000	-	$100,000
Gary T. Hartwick	100,000	-	$100,000
Eric D. McHenry	100,000	-	$100,000
Deborah A. Meekins	100,000	-	$100,000
James M. Ryan	100,000	-	$100,000
William R. Schrader	365,000	16,416 (2)	$381,416
Marlene K. Soiland	107,200	-	$107,200
Gregory S. Steele	100,000	-	$100,000

NOTES:

(1) During 2022, each non-employee director received a $90,000 retainer and an additional $10,000 for supplemental meeting fees. The Chairperson received an additional $185,000 retainer and an additional $90,000 for supplemental meeting fees. The Corporate Secretary received an additional $7,200 retainer.

(2) Other compensation includes an auto allowance of $12,000, $3,156 in Bank-paid supplemental health care premium and $1,260 in health club dues.

Former employee Directors of the Bank (Directors DeCrona, Hartwick and Schrader) may receive certain compensation related to their tenure as employees of the Bank. This compensation is not included above as it is not related to their Board duties.

The Compensation Committee periodically reviews the compensation levels of the Board of Directors. In its review, the committee looks to ensure that the compensation is fair, reasonably competitive, and commensurate to the responsibilities of both the individual directors as well as the Board in aggregate. The committee's compensation philosophy is to target director compensation at or near the median 50^{th} percentile of regional peer group banks. In determining levels of cash compensation, the committee considered that, unlike most of its peer banks, the Bank does not issue equity-linked compensation to its directors. The committee believes paying total compensation near the 50^{th} percentile is critical for attracting and retaining the qualified directors it needs to achieve and oversee its business objectives and good governance practices.

Independent assessments of market compensation are made with the most recent being a report commissioned in December 2022 from AON, a large independent compensation consulting firm. After the Compensation Committee's review of applicable rules for independence, the committee determined that there are no known conflicts of interest between AON and the Bank. AON services included a review and recommendation to refine a peer group based upon the Bank's and peers' size and total compensation levels provided by both.

The peer group including 16 peer banks located in the Pacific region with assets ranging evenly from $2 billion to $7.5 billion (the 50th percentile being $3.7 billion) were selected. None of the institutions had any unique business models or were targets of mergers or acquisitions. The Bank's director compensation ranked at the 50th percentile of these peers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Set forth in the following table is certain information on each person who is known to the Board of Directors to be the beneficial owner as of February 21, 2023 of more than 5% of the Bank's Common Stock, which is the only class of equity securities that the Bank has outstanding.

Amount and Nature of Beneficial Ownership

Name and Address of Beneficial Owner	Total Shares Beneficially Owned	Sold Voting and Investment Power	Shared Voting and Investment Power	Percent of Class
Frank P. Doyle Trust 545 4th Street Santa Rosa, CA 95401	864,764	-	864,764	50.44%

Two of the three trustees of the Frank P. Doyle Trust, Directors Ryan and Schrader, serve on the Bank Board of Directors, and may be deemed to share voting authority over such shares.

The following table sets forth as of February 21, 2023 the number of shares of the Bank's Common Stock beneficially owned by each Director. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules and includes shares over which the director has voting of dispositive authority and any shares the director has the right to acquire within 60 days of such date. The Bank's Bylaws note a 100-share ownership policy for the Directors.

Amount and Nature of Beneficial Ownership

Name	Total Shares Beneficially Owned	Sole Voting and Investment Power	Shared Voting and Investment Power (1)	Percent of Class
Bruce E. DeCrona	1,000	1,000	-	0.06%
Steven G. Dutton	313	313	-	0.02%
Gary T. Hartwick	100	100	-	0.01%
Eric D. McHenry	100	100	-	0.01%
Deborah A. Meekins	200	200	-	0.01%
James M. Ryan	868,957	4,193	864,764	50.69%
Troy J. Sanderson	250	250	-	0.01%
William R. Schrader	867,944	3,180	864,764	50.63%
Marlene K. Soiland	4,043	718	3,325	0.24%
Gregory S. Steele	200	200	-	0.01%
Total Directors as a Group	878,343	10,254	868,089	51.23%

Note (1): A total of 864,764 shares listed under Shared Voting and Investment Power for Directors Ryan and Schrader represent shares of the Frank P. Doyle Trust. Directors Ryan and Schrader are Trustees of the Frank P. Doyle Trust.

COMPENSATION AND MANAGEMENT SUCCESSION COMMITTEE

All compensation decisions affecting the executive officers of the Bank are made by the Board of Directors of the Bank. The Compensation and Management Succession Committee of the Board of Directors reviews and recommends to the Board of Directors the compensation of the Executive Officers identified in the Summary Compensation Table and other tables on the following pages of this Proxy Statement.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

In the following Compensation Discussion and Analysis section, the Bank provides information concerning compensation and benefits provided to the Executive Officers of the Bank. The Executive Officers are Troy J. Sanderson, President and Chief Executive Officer, and Shari J. DeMaris, Executive Vice President and Chief Financial Officer.

The Bank's overall compensation objectives are to pay salaries and provide benefits that are both fair and reasonable, consistent with the compensation practices of the financial services industry in general, and appropriate and competitive in the Bank's local marketplace. The Bank's goal is to attract, develop and retain high-caliber executives who are capable of increasing the Bank's performance for the benefit of its shareholders while maintaining the philosophy of community banking. Ultimately, the Bank desires to base its compensation on individual performance as it affects the overall financial results of the Bank. Specifically, the executive compensation program of the Bank has been designed to:

- provide a pay-for-performance policy that differentiates compensation amounts based upon corporate and individual performance;

- provide compensation opportunities comparable to those offered by other West Coast-based financial institutions and banks of similar asset size, thus allowing the Bank to compete for and retain talented executives who are essential to the long-term success of the Bank;

- maintain a corporate environment which encourages stability and long-term focus for the primary constituencies of the Bank, including shareholders, employees, customers, regulatory agencies and the communities it serves.

To achieve its objectives the Bank has structured its compensation program: (1) to reward current corporate and individual performance through salary increases and opportunities for cash bonuses; and (2) to reward long-term corporate and individual performance through participation in the Deferred Compensation Plan and participation in the Supplemental Executive Retirement Plan. The amounts and types of compensation paid in 2022 (as set forth below) fit into the Bank's overall compensation objectives by achieving those two objectives.

Decisions Regarding Composition of Total Compensation

The Compensation and Succession Management Committee (the "Committee"), which is comprised of the five non-employee Directors who have been deemed to be independent, has responsibility for implementing and overseeing the Bank's executive compensation program. In this respect, the Committee has strategic and administrative responsibility for a broad range of issues, including ensuring that the Bank compensates key management employees effectively and in a manner consistent with the Bank's compensation strategy. The Committee makes compensation recommendations to the Board of Directors with respect to each of the

Executive Officers identified in the Summary Compensation Table and other tables on the following pages of this Proxy Statement. The Board of Directors approves the compensation for the Executive Officers.

The Committee's policy is to review management compensation at least annually. The Committee makes these reviews to ensure that management compensation is consistent with the Bank's compensation philosophies articulated above.

The factors the Committee considers in either determining or ratifying, as the case may be, the level and composition of compensation include, but are not limited to, the following: (1) the Bank's performance as compared to internally-established goals for the most recently ended fiscal year and to the performance of other West Coast-based financial institutions; (2) the individual officer's level of responsibility within the Bank; and (3) competitive compensation data. In addition, the Committee considers the financial performance for the current year, including the business plan containing the financial performance goals measured primarily in terms of earnings per share, growth of the Bank, asset quality, return on assets and return on stockholders' equity. The Committee also considers the financial budget for the upcoming fiscal year and the Bank's updated strategic plan. While the foregoing factors are not specifically weighted in the decision-making process, primary emphasis is placed on the Bank's performance during the previous year as compared to the internally-established goals. Although the Committee reviewed a number of objective factors in setting compensation for 2022, its final decision was based on a subjective determination. Details regarding the compensation of each of the Executive Officers are set forth in the tables that appear below.

In a very similar fashion to the Compensation Committee's approach with director compensation, an independent assessment of executive compensation for our President/CEO and Chief Financial Officer was commissioned on July 13, 2022 from the aforementioned AON Group. The same 16 peer institutions were used as peer comparables. After reviewing and considering this study, the Compensation Committee adjusted the cash compensation consisting of salary and bonus for our President/CEO and our CFO to place them near the 50th percentile.

After considering all the compensation paid to the Executive Officers, the Committee determined that the compensation paid to the Executive Officers is reasonable and not excessive.

Elements of Compensation

The Bank provides a competitive mix of pay elements that align executive incentives with shareholder value. The executive compensation program includes salary, cash bonuses and long-term compensation.

The forms of compensation paid in 2022 are comprised of the following:

Salaries and cash bonuses: Salary is designed to provide competitive levels of compensation to executives based upon their experience, duties and scope of responsibility. The Bank pays salaries because it provides a basic level of compensation and is necessary to recruit and retain executives. An important aspect of salary is the Committee's ability to use annual base salary adjustments to reflect an individual's performance or changed responsibilities. Salary levels are also important because the Committee may tie the amount of long-term compensation to an executive's salary. In making its decisions regarding annual salary adjustments, the Committee reviews quantitative and qualitative performance factors as part of an annual performance appraisal. These are established for each executive position and the performance of the incumbent executive is evaluated annually against these standards. This appraisal is then integrated with market-based adjustments to salary ranges to determine if a base salary increase is merited.

Participation in the Supplemental Executive Retirement Plan: The SERP is a defined contribution plan designed primarily to reward eligible employees for long and loyal service by providing them with retirement benefits. The SERP is operated in accordance with the provisions of the written plan document. The SERP has a graduated vesting schedule with partial vesting occurring before the final vesting date. The final vesting term for the SERP varies, but is generally between 5 and 15 years.

Participation in the 401(k) and Profit Sharing Plan: The Bank offers a qualified 401(k) plan to provide a tax-advantaged savings vehicle. The Bank makes matching contributions to the 401(k) plan to encourage employees to save money for their retirement. This 401(k) plan and such matching contributions enhance the range of benefits offered to employees and the Bank's ability to attract and retain employees. The 401(k) covers all eligible employees of the Bank. Employees are eligible to participate in elective salary deferrals. Participants may contribute up to 80% of eligible compensation, limited to the maximum amount deductible under the Internal Revenue Code for employee salary reduction. The Plan provides for an employer-matching contribution equal to 100% of the employee's deferral, limited to deferrals of up to 3% of compensation, plus 50% of the employee's deferral up to an additional 2% of eligible compensation. Therefore, the maximum Bank's contribution is 4% of compensation. Subject to certain exceptions, the Bank's matching contributions are vested at three years of service.

The Profit Sharing Plan is operated in accordance with the provisions of the written plan document. Employees of the Bank are eligible to participate in the Profit Sharing Plan. The Profit Sharing Plan is designed primarily to reward eligible employees for long and loyal service by providing them with retirement benefits. The Profit Sharing Plan is a defined contribution plan and is primarily invested in assets other than equity securities of the Bank. Any benefits payable under the Profit Sharing Plan will be based solely upon the amounts contributed by the Bank for the benefit of a participant and any changes in the value of those contributions while they are held in the Profit Sharing Plan. The Profit Sharing Plan does not require or allow contributions by participating employees. Subject to certain exceptions, contributions to the Profit Sharing Plan are fully vested after three years of service with the Bank. In 2022, the Bank, as sponsor of the Profit Sharing Plan, made a 2.5% of compensation Profit Sharing Plan contribution. Subject to certain exceptions, the Bank's profit sharing contributions vest at three years of service.

Participation in the Deferred Compensation Program: This program allows the Executive Officers to elect to defer a portion of their salaried compensation for payment by the Bank at a subsequent date. The Executive Officers can defer up to 50% of their base compensation and up to 100% of any bonus into the Deferred Compensation Plan. Any amount so deferred is credited to the Executive Officer's deferred compensation account which is managed by the Bank's Trust Department. The amounts accrued in the Executive Officer's account are payable over 10 years in monthly installments at the time of the Executive Officer's retirement. The Bank does not make any contributions to the Deferred Compensation Program.

Life insurance and accidental death and dismemberment benefits: The Executive Officers receive a life insurance benefit of up to three times a maximum salary of $125,000, or $375,000, and an accidental death and dismemberment benefit. These benefits are part of a non-discriminatory plan available to all full-time employees and constitutes a base-level health and welfare benefit expected in today's market. The Executive Officers are also provided with split-dollar life insurance in the amount of $1,000,000.

Perquisites and other benefits: Perquisites and other benefits represent a very small part of the overall compensation package, and are offered only after consideration of business need. The Committee annually reviews the perquisites and other personal benefits that are provided to senior management.

SUMMARY COMPENSATION PAID TO EXECUTIVE OFFICERS

Overview

The following sections provide a summary of cash and certain other compensation the Bank paid for the year ended December 31, 2022 to the Executive Officers.

Summary Compensation Table

The table below summarizes the total compensation paid to each of the Executive Officers for 2022. The Bank has not entered into employment agreements with its Executive Officers. When setting the total compensation for each of the Executive Officers, the Committee reviews information concerning the Executive's current compensation and all other compensation.

Name/ Position with Bank	Salary ($)(1)	Bonus ($)(1)	All Other Compensation ($) (2)	Total Compensation ($)
Troy J. Sanderon President and CEO	$ 500,000	$ 320,500	$ 50,647	$ 871,147
Shari J. DeMaris EVP and CFO	323,917	223,000	37,659	584,576

NOTES:

(1) Compensation deferred at the election of the Executive Officer pursuant to the Bank 401(k) plan and deferred compensation plan is included in salary and bonus totals.

(2) For each of the Executive Officers, the figures shown consist of contributions in the following amounts made by the Bank or paid in 2022 which amounts are quantified in the table below.

	Defined Contribution on Profit Sharing Plan	401(k) Plan	Country Club Membership	Life Insurance and ADD Premiums	Supplemental Health Care Premiums	Auto Allowance	Total All Other Compensation
Troy J. Sanderon	$ 5,800	$ 12,200	$ 6,984	$ 607	$ 10,056	$ 15,000	$ 50,647
Shari J. DeMaris	5,800	12,200	5,916	607	3,516	9,620	37,659

AUDIT COMMITTEE

Audit Committee Report

February 22, 2022

To the Board of Directors:

The Audit Committee consists of the following members of the Board of Directors: Bruce E. DeCrona, Deborah A. Meekins, James M. Ryan, William R. Schrader, Marlene K. Soiland and Gregory S. Steele. As noted above, the Board of Directors has determined that Mr. DeCrona, Chairperson of the Audit Committee, and Mr. Ryan are the "financial experts" as defined under Part 363 of FDIC regulations. Each of the members of the Audit Committee is independent as defined under the rules of the FDIC and other applicable laws and regulations.

The Audit Committee has:

- Reviewed and discussed the Bank's audited financial statements as of and for the year ended December 31, 2022 with its management and Crowe, LLP, the Bank's independent auditor;

- Discussed with Crowe, LLP the matters required to be discussed by the Public Company Accounting Oversight Board and Part 363 of the FDIC's regulations; and

- Received and reviewed the written disclosures from Crowe, LLP required by the application requirements of the Public Company Accounting Oversight Board and Part 363 of the FDIC's regulations regarding the independent accountant's communications with the Audit Committee concerning independence and we have discussed with the auditors the auditor's independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Bank's Annual Report for the year ended December 31, 2022.

Audit and Other Fees

Aggregate fees billed to the Bank for the year ending December 31, 2022 by the Bank's external audit firm were (1) $215,000 in audit fees, (2) $26,000 in tax preparation fees and (3) $6,400 in other fees for a total of $247,400 in 2022.

INDEPENDENT AUDITOR

The Bank has engaged Crowe LLP as its external audit firm for 2022. Representatives of Crowe LLP are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

PROPOSALS BY SHAREHOLDERS

The Bank's bylaws govern director nominations made by shareholders.

Any common stock shareholder may nominate a person for election to the Board of Directors at any meeting of shareholders called for the election of directors, provided that the nomination is received by the President not less than thirty-five (35) or more than sixty (60) days prior to any such meeting. To be eligible, all nominees submitted by shareholders must satisfy the residency requirements in Section 3.2 of the bylaws and include the name and address of the nominee(s) and all other information required by the bylaws.

Section 3.3 of the Bank's bylaws provides: "Nominations, other than those made by the Board of Directors shall be made in writing and shall be delivered or mailed to the President of the Corporation not less than thirty-five (35) days nor more than sixty (60) days prior to any meeting of shareholders called for the election of directors, provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Corporation not later than the close of business on the seventh (7th) day following the day on which the notice of meeting was mailed. Such notification shall contain the following information as to each proposed nominee and as to each person, acting alone or in conjunction with one or more other persons, in making such nomination or in organizing, directing or financing such nomination or solicitation of proxies to vote for the nominee:

(a) the name, age, birthdate, residence address and business address of each proposed nominee and each such person and the date as of which such nominee commenced residency at such residence address;

(b) the principal occupation or employment, the name, type of business and address of the organization or other entity in which such employment is carried on of each proposed nominee and of each such person;

(c) if the proposed nominee is an attorney, a statement as to whether or not either he or she or any firm with whom he or she has a relationship as partner, associate, of counsel, employee, or otherwise, acts as legal counsel for any banking corporation, affiliate or subsidiary thereof, bank holding company, industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation;

(d) a statement as to each proposed nominee and a statement as to each such person stating whether the nominee or person concerned has been a participant in any proxy contest within the past ten years, and, if so, the statement shall indicate the principals involved, the subject matter of the contest, the outcome thereof, and the relationship of the nominee or person to the principals;

(e) the amount of stock of the Corporation owned beneficially, directly or indirectly, by each proposed nominee or by members of his or her family residing with him or her and the names of the registered owners thereof;

(f) the amount of stock of the Corporation owned of record but not beneficially by each proposed nominee or by members of his or her family residing with him or her and by each such person or by members of his or her family residing with him or her and the names of the beneficial owners thereof;

(g) if any shares specified in (e) or (f) above were acquired in the last two years, a statement of the dates of acquisition and amounts acquired on each date;

(h) a statement showing the extent of any borrowings to purchase shares of the Corporation specified in (e) or (f) above acquired within the preceding two years, and if funds were borrowed otherwise than pursuant to a margin account or bank loan in the regular course of business of a bank, the material provisions of such borrowings and the names of the lenders;

(i) the details of any contract, arrangement or understanding relating to the securities of the Corporation, to which each proposed nominee or to which each such person is a party, such as joint venture or option arrangements, puts or calls, guaranties against loss, or guaranties of profit or arrangements as to the division of losses or profits or with respect to the giving or withholding of proxies, and the name or names of the persons with whom such contracts, arrangements or understandings exist;

(j) the details of any contract, arrangement, or understanding to which each proposed nominee or to which such person is a party with any banking corporation, affiliate or subsidiary thereof, bank holding company, industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation, or with any officer, director, employee, agent, nominee, attorney, or other representative of such covered entity;

(k) a description of any arrangement or understanding of each proposed nominee and of each such person with any person regarding future employment or with respect to any future transaction to which the Corporation will or may be a party;

(l) a statement as to each proposed nominee and a statement as to each such person as to whether or not the nominee or person concerned will bear any part of the expense incurred in any proxy solicitation, and, if so, the amount thereof;

(m) a statement as to each proposed nominee and a statement as to each such person describing any conviction for a felony that occurred during the preceding ten years involving the unlawful possession, conversion or appropriation of money or other property, or the payment of taxes;

(n) the total number of shares that will be voted for each proposed nominee;

(o) the amount of stock, if any, owned, directly or indirectly, by each proposed nominee or by members of his or her family residing with him or her, in any banking corporation, affiliate or subsidiary thereof, bank holding company, industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation; and

(p) the identity of any banking corporation, affiliate or subsidiary thereof, or bank holding company or industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation, as to which such nominee or any other such person serves as a director, officer, employee, agent, consultant, advisor, nominee or attorney, together with a description of such relationship. The Chairman of the Board (or other person presiding at the meeting in accordance with the bylaws) may, in his or her discretion, determine and declare to the meeting that a nomination not made in accordance with Sections 3.2 and 3.3 of the bylaws shall be disregarded.

COMMUNICATION WITH THE BOARD OF DIRECTORS

The Board of Directors has established a process for shareholders of the Bank to send communications to the Board. Any shareholder desiring to communicate with the Board or one or more individual Board members may write to Marlene Soiland at the following address:

Exchange Bank Board of Directors
c/o Marlene Soiland, Corporate Secretary
PO Box 403
Santa Rosa, CA 95402

OTHER MATTERS

Management of the Bank knows of no other matters which will be presented for consideration at the 2023 Annual Meeting of Shareholders other than those stated in the Notice of 2023 Annual Meeting, which is part of this Proxy Statement, and management does not intend to present any such other business. If any other matters do properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote thereon in accordance with their judgment. The proxy will also have the power to vote for the adjournment of the meeting from time to time.

A copy of the Consolidated Financial Statements of the Bank for the year ended December 31, 2022, is being mailed to shareholders together with this Proxy Statement. Such report is not incorporated in this Proxy Statement and is not to be considered a part of the proxy soliciting material.

By Order of the Board of Directors

February 27, 2023
Santa Rosa, California

EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

FINANCIAL STATEMENTS
December 31, 2022 and 2021

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and
Board of Directors
Exchange Bank and Subsidiaries
Santa Rosa, California

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Exchange Bank and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Exchange Bank and Subsidiaries as of December 31, 2022 and 2021, 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.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Exchange Bank and Subsidiaries' internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated February 22, 2023 expressed an unmodified opinion.

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 Exchange Bank and Subsidiaries 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.

(Continued)

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

Crowe LLP

Crowe LLP

Sacramento, California
February 22, 2023

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(In thousands, except share and par value amounts)

	2022	2021
ASSETS		
Cash and due from banks	$ 48,129	$ 472,728
Short-term investments	244	241
Total cash and cash equivalents	48,373	472,969
Interest-bearing deposits in other financial institutions	1,000	17,000
Available-for-sale investment securities	1,575,648	1,407,247
Loans and leases	1,509,908	1,510,107
Less allowance for loan and lease losses	(43,540)	(43,847)
Net loans and leases	1,466,368	1,466,260
Federal Home Loan Bank stock	15,000	14,465
Bank premises and equipment, net	17,217	18,717
Bank owned life insurance	66,597	64,453
Other real estate owned	310	-
Accrued interest receivable and other assets	143,884	75,640
Total assets	$ 3,334,397	$ 3,536,751
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 1,189,742	$ 1,232,666
Interest bearing	1,876,539	1,946,452
Total deposits	3,066,281	3,179,118
Federal Home Loan Bank Advance	20,000	-
Accrued interest payable and other liabilities	46,092	38,431
Total liabilities	3,132,373	3,217,549
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, 1,000,000 shares authorized:		
None issued or outstanding	-	-
Common stock, $2.50 par value; 3,000,000 shares authorized; 1,714,344 shares issued and outstanding	4,286	4,286
Additional paid-in capital	46,026	46,026
Retained earnings	305,373	276,294
Accumulated other comprehensive income (loss), net of taxes	(153,661)	(7,404)
Total stockholders' equity	202,024	319,202
Total liabilities and stockholders' equity	$ 3,334,397	$ 3,536,751

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2022 and 2021
(In thousands, except per share amounts)

	2022	2021
Interest income:		
Interest and fees on loans and leases	$ 71,437	$ 77,880
Interest on investment securities:		
Taxable	27,353	15,794
Exempt from Federal income taxes	2,420	1,632
Total interest income	101,210	95,306
Interest expense:		
Interest on deposits	2,035	1,757
Interest on borrowings	40	-
Total interest expense	2,075	1,757
Net interest income before provision for loan and lease losses	99,135	93,549
Provision for loan and lease losses	-	2,000
Net interest income after provision for loan and lease losses	99,135	91,549
Non-interest income:		
Service charges and fees	3,279	3,159
Trust income	10,024	10,482
Merchant discount and interchange fees	5,200	3,904
Income from bank owned life insurance	2,121	1,902
Other income	3,744	4,198
Total non-interest income	24,368	23,645
Non-interest expense:		
Salaries and employee benefits	40,279	35,622
Occupancy and equipment	7,621	7,916
Professional fees	7,855	6,536
FDIC assessments	990	711
Other expenses	16,672	13,861
Total non-interest expense	73,417	64,646
Income before provision for income taxes	50,086	50,548
Provision for income taxes	12,606	14,138
Net income	$ 37,480	$ 36,410
Basic and diluted earnings per common share	$ 21.86	$ 21.24

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2022 and 2021
(In thousands)

	2022	2021
Net Income	$ 37,480	$ 36,410
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gains (losses) arising during the period	(200,305)	(24,889)
Tax effect	59,219	7,538
Changes in unrealized gain (loss) on available-for-sale investment securities, net of tax	(141,086)	(17,531)
Defined benefit pension plans:		
Net gains (losses) arising during the period	(6,611)	5,029
Tax effect	1,954	(1,487)
Changes in defined benefit pension plans, net of tax	(4,657)	3,542
Change in deferred compensation trust liabilities	(729)	131
Tax effect	215	(39)
Changes in deferred compensation trust, net of tax	(514)	92
Other comprehensive income (loss)	(146,257)	(13,897)
Total Comprehensive Income	$ (108,777)	$ 22,513

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2022 and 2021
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Stockholders' Equity
Balance, January 1, 2021	$ 4,286	$ 46,026	$ 248,113	$ 6,493	$ 304,918
Net Income	-	-	36,410	-	36,410
Other comprehensive income	-	-	-	(13,897)	(13,897)
Cash Dividends ($4.80 per share)	-	-	(8,229)	-	(8,229)
Balance, December 31, 2021	$ 4,286	$ 46,026	$ 276,294	$ (7,404)	$ 319,202
Net Income	-	-	37,480	-	37,480
Other comprehensive loss	-	-	-	(146,257)	(146,257)
Cash Dividends ($4.90 per share)	-	-	(8,401)	-	(8,401)
Balance, December 31, 2022	**$ 4,286**	**$ 46,026**	**$ 305,373**	**$ (153,661)**	**$ 202,024**

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021
(In thousands)

	2022	2021
Cash flows from operating activities:		
Net Income	$ 37,480	$ 36,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,243	2,516
Provision for loan losses	-	2,000
Deferred income tax expense (benefit)	1,007	(7)
Gain on sale of guaranteed portion of SBA loans	(490)	(869)
Accretion of discounts and amortization of premiums on investment securities	6,494	3,859
Net change in deferred loan origination fees	(2,136)	(1,987)
Net loans originated with intent to sell and sold	(2,414)	(1,393)
Decrease (Increase) in bank owned life insurance, net of expenses	271	(1,049)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(17,047)	7,114
Accrued interest payable and other liabilities	7,660	(12,175)
Net cash provided by operating activities	33,068	34,419
Cash flows from investing activities:		
Decrease in Interest-bearing deposits in other financial institutions	16,000	21,000
Proceeds from maturities of investment securities	175,096	290,491
Purchase of investment securities	(548,761)	(807,852)
Purchase of Federal Home Loan Bank (FHLB) stock	(535)	(982)
Purchase and redemption of bank owned life insurance	(2,415)	(10,128)
Net decrease in loans and leases	4,933	221,667
Proceeds from sale of other real estate owned	-	40
Proceeds from sale of land	-	680
Purchase of bank premises and equipment	(744)	(93)
Net cash (used in) investing activities	(356,426)	(285,177)
Cash flows from financing activities:		
Net (decrease) increase in demand, interest bearing and savings deposits	(91,040)	414,602
Net (decrease) in time deposits	(21,797)	(14,057)
Net increase (decrease) in short-term FHLB advances	20,000	(5,000)
Cash paid for dividends	(8,401)	(8,229)
Net cash (used in) provided by financing activities	(101,238)	387,316
(Decrease) Increase in cash and cash equivalents	(424,596)	136,558
Cash and cash equivalents, beginning of year	472,969	336,411
Cash and cash equivalents, end of year	$ 48,373	$ 472,969
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 2,980	$ 1,840
Income taxes	$ 12,800	$ 13,400

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: Exchange Bank (the "Bank"), a California corporation, and its wholly-owned subsidiaries, A. J. Ventures, Inc., AJV-Alderbrook LLC conduct their business from their headquarters in Santa Rosa, California. The Bank is a full service bank providing a range of commercial and retail banking services to individuals and businesses. The Bank, through its loan portfolio, has geographically concentrated credit risk in Sonoma County. Additionally, the loan portfolio has a concentration in loans secured by real estate.

The accounting and reporting policies of the Bank and its subsidiaries conform with accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry. A summary of the more significant accounting and reporting policies follows:

Principles of Consolidation: The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, A. J. Ventures, Inc. and AJV-Alderbrook LLC. The subsidiaries are used to hold real estate properties acquired through, or in lieu of, loan foreclosure. All intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the consolidated statement of cash flows, the Bank considers all highly liquid investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents include cash, due from banks, money market investments and Federal funds sold. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and sold.

Investment Securities: The Bank classifies its investment securities as either available-for-sale or held-to-maturity at the time of purchase. Available-for-sale investment securities are measured at fair value with a corresponding recognition of the net unrealized holding gain or loss, net of income taxes, within accumulated other comprehensive income (loss), which is a separate component of stockholders' equity, until realized. Held-to-maturity investment securities are measured at amortized cost, based on the Bank's positive intent and ability to hold such securities to maturity. At December 31, 2022 and 2021, the Bank did not hold any held-to-maturity investment securities.

Premiums on investment securities are amortized to the earliest call date and discounts are accreted over the period to maturity of those securities. Interest income is recognized when earned. Realized gains and losses on the sale of investment securities are recorded on the trade date and are computed using the specific identification method for determining the cost of investment securities sold.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans and Leases: Loans that management has the ability and intent to hold for the foreseeable future or maturity or payoff are reported at the principal amounts outstanding, adjusted for unamortized discounts and premiums and net of deferred loan origination fees and costs, write-downs and the allowance for loan losses. Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

The Bank may charge fees for originating loans and leases. These origination and commitment fees, net of certain related direct loan and lease origination costs, are deferred. The net deferred fees or costs are recognized as an adjustment of yield over the contractual life of the loan or lease using the interest method. The unamortized balance of deferred fees and costs is reported as a component of net loans and leases.

For all classes of loans, interest is accrued daily based upon outstanding loan and lease balances. However, when, in the opinion of management, loans or leases become 90 days past due, unless the loan is well-secured and in process of collection, or are considered impaired and the future collectability of interest and principal is in serious doubt, a loan or lease is placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans or leases, or payments received on nonaccrual loans or leases for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Generally, loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Sales and Servicing: Included in the portfolio are loans guaranteed by the Small Business Administration (SBA) that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market value. Fair value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is recorded at fair value with the Bank earning future servicing income. Gains and losses are recognized based on the difference between the selling price and the fair value of servicing assets or liabilities and the allocated carrying value of the loans sold. At December 31, 2022 and 2021 the balance of loans originated and unsold under the SBA program totaled $5,926 and $7,474, respectively. Management has determined that the unsold loans originated through the SBA program were not material for disclosure as held for sale at December 31, 2022 and 2021.

Loans held for sale subsequently transferred to the loan portfolio are transferred at the lower of cost or fair value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at fair value, and are subsequently amortized into non-interest income in proportion to and over the period of the related net servicing income or expense. SBA loans with unpaid balances of approximately $63,739 and $70,048 were being serviced for others at December 31, 2022 and 2021, respectively. Servicing assets at December 31, 2022 and 2021 and servicing fee income net of servicing rights amortization during the years ended December 31, 2022 and 2021 were not material for disclosure.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is a valuation allowance for probable incurred credit losses in the Bank's loan portfolio as of the balance-sheet date. For all loan classes the allowance is established through a provision for loan and lease losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves related to loans that are not impaired.

For all classes of the portfolio, a loan or lease is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans and leases determined to be impaired are individually evaluated for impairment. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. When a loan or lease is impaired, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Bank for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The determination of the general reserve for loans and leases that are not impaired is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment over the prior twelve years, internal asset classifications, and qualitative factors to include economic trends in the Bank's service areas, industry experience and trends, concentrations, estimated collateral values, the Bank's underwriting policies, the character of the loan portfolio, and probable losses in the portfolio taken as a whole.

The Bank maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include real estate – commercial, real estate – construction, commercial, lease financing and consumer loans. The allowance for loan and lease losses attributable to each portfolio segment, which includes both impaired loans and loans that are not impaired, is combined to determine the Bank's overall allowance, which is included on the consolidated balance sheet.

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

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

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

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

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

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

The general reserve component of the allowance for loan and lease losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate–Commercial – This segment is comprised of loans used to finance the acquisition of commercial real property. These loans are secured by first liens against the underlying real property. The inherent risk is driven by the borrower's capacity to service the debt combined with the value of the property collateral relative to the loan balance. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Real Estate–Construction – This segment is comprised of loans used to acquire, develop, and/or construct residential housing or commercial property types, including office, industrial and retail. Inherent risk is high as this segment evidences construction risk and absorption risk. Economic trends including consumer spending, consumer confidence, business confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair absorption and compromise the borrower's capacity to service the underlying debt.

Commercial – These loans are primarily for business purposes and are typically secured by personal property and in some cases by junior liens against real property. Credit risk is mitigated by financial covenants and financial reporting requirements. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Lease Financing – This segment is primarily comprised of smaller business purpose commitments used to finance an array of business equipment. Leases are amortized over a specific period of time. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Loans and receivables in homogeneous loan portfolio segments are not evaluated for specific impairment. Rather, the sole component of the allowance for these loan types is determined by collectively measuring impairment reserve factors based on management's assessment of the following for each homogeneous loan portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. These reserve factors are described in further detail below for each homogeneous loan portfolio segment.

Consumer – This segment is comprised of single family 1-4 residential mortgages, installment and home equity loans and lines used to finance direct consumer purchases and/or establish lines of credit for consumer purposes. Economic trends including consumer spending, consumer confidence, market interest rates, trends in housing values, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the FDIC and the California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Off-Balance-Sheet Commitments: The Bank also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical loss data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the consolidated balance sheet and is not significant.

Other Real Estate Owned: Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for loan and lease losses. Subsequent declines in the fair value of real estate owned, along with related expenses from operations, are charged to noninterest expense as incurred.

Bank Premises and Equipment: Bank premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line basis over the lesser of the life of the lease or the estimated useful lives of the assets, ranging from 3 to 10 years for furniture and equipment, 5 to 10 years for leasehold improvements and 10 to 40 years for premises. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Retirement Plan and Postretirement Healthcare Plan: The Bank has a defined benefit pension plan covering all qualified personnel employed for the minimum required term of one year. Benefits are based on years of service and compensation projected to the separation date. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. It is the Bank's policy to contribute annually an amount at least equal to the minimum required by law. During 2007, the Plan was amended to freeze future benefit accruals for participants who have less than 15 years of service and age plus years of service less than 60. The plan was also amended to limit cost-of-living adjustments for continuing active participants. The amendments are expected to significantly reduce Plan liability and future net period pension costs.

In order to comply with ERISA requirements when the number of Plan participants fell below 50, effective December 31, 2016, the Plan was further amended to complete the freeze of future benefit accruals for all remaining Grandfathered Plan Participants (those plan participants that met the rule of eligibility during 2007 and continued to accrue plan benefits). Effective December 31, 2016, (the “Grandfathered Freeze Date”), Service, Credited Service, Average Compensation and Covered Compensation was frozen for the remaining Grandfathered Plan Participants. The changes described in the plan freeze above, only affected future benefits that had not yet accrued. They do not affect any benefits that both active and retired employees have already accrued and earned. The Bank intends to terminate the Plan in 2023. Until termination, the Plan will continue to operate as an ERISA qualified defined benefit plan, with the Bank maintaining a fiduciary obligation to manage the assets and provide future benefits to all active and retired plan participants and their beneficiaries under existing terms. The amendments as described above are expected to significantly reduce Plan liability and future net periodic pension costs.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, the Bank sponsors a defined benefit postretirement healthcare plan that covers both salaried and non-salaried employees. The Plan provides medical benefits through health maintenance organizations. The Plan is funded by a voluntary employee beneficiary association (VEBA) trust maintained by the Bank. The contribution level for a retiree is based on a percentage of premium that varies according to the retiree's years of service with the Bank. The Bank's contribution for dependents is 50% of the Bank's share of the retiree's annual premium. The portion paid by the Bank is limited to 200% of the 1991 premium. Future cost-sharing plans are not expected to change from the current stated policy in the written plan. In addition, for the group of retirees that retired prior to January 1, 1991, the retiree medical benefit will be paid fully by the Bank for the life of the retiree and dependent. For employees retiring prior to January 1, 1992, or active employees with more than 25 years of service as of December 31, 1991, the 200% limit on lifetime benefits will not apply and the Bank will pay 100% of the retiree's premium and 50% of the dependent's premium. Effective December 31, 2007, the Plan was amended to cover only active employees who have at least 15 years of service and age plus years of service more than 60. The Plan was also amended to limit the maximum reimbursement amount to grandfathered retirees. As of November 1, 2021, the Plan was amended and is no longer a fully insured medical plan nor a self-funded dental and vision plan for its retirees. After the amendment, the Plan consists of individual retiree health reimbursement accounts to help eligible retirees pay for medical, dental, vision and prescription drug plans. The amendments are expected to significantly reduce Plan liability and future net period pension costs.

Other Postretirement Benefits: The Bank has established deferred compensation and salary continuation agreements providing nonqualified defined benefit retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased single premium life insurance policies on each participant. The salary continuation agreements are accounted for by accruing a liability based upon the present value of each individual's benefit at retirement age and recognizing the related cost of these benefits over the term of employment. The single payment premium for the life insurance policies is recorded based on the cash surrender values of the policies adjusted for income earned on the investment and expense related to mortality costs.

The Bank also has endorsement split-dollar life insurance agreements with certain employees whereby the Bank has effectively agreed to maintain a life insurance policy during the employees' postretirement period. The Bank is accruing, over the employees' service period, a liability for the actuarial present value of future costs to maintain life insurance during the employees' postretirement period.

Income Taxes: Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon their analysis of available evidence, management determined that it is "more likely than not" that all of the deferred income tax assets as of December 31, 2022 and 2021 will be fully realized and therefore no valuation allowance was recorded.

The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: Earnings per common share is computed by dividing net income by the weighted average number of shares outstanding during the year, which was 1,714,344 for 2022 and 2021, respectively. There were no dilutive shares or share equivalents.

Comprehensive Income: Comprehensive income includes net income and other comprehensive income. Other comprehensive income for the Bank includes unrealized gains and losses on investment securities classified as available-for-sale, and changes in the funded status of defined benefit pension plans and the deferred compensation trust.

Advertising: Advertising costs are charged to expense in the period incurred and totaled $869 and $1,163 for the years ended December 31, 2022 and 2021, respectively.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Subsequent Events: The Bank reviewed all events occurring from December 31, 2022 through February 22, 2023, the date the financial statements were available to be issued. There were no subsequent events that were considered necessary for disclosure and there were no subsequent events requiring accrual.

Impact of New Accounting Standards:

ASU 2016-13, Financial Instruments – Credit Losses. In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

The standard will be effective for the Bank as of January 1, 2023.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transition:

- For debt securities with other-than temporary impairment, the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the Allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings, net of taxes, as of the beginning of the first reporting period in which the guidance is effective.

While management is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Bank's Financial Statements, the Bank has taken steps to prepare for the implementation when it becomes effective, such as forming an internal task force, gathering pertinent data, consulting with outside professionals, and evaluating current IT systems. Management expects to recognize a one-time cumulative effect adjustment to the allowance for credit losses as of the first reporting period in which the new standard is effective, but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the Bank's regulatory capital, financial position, results of operations or cash flows.

ASU 2018-13, Fair Value Measurement. In August 2019, FASB issued guidance, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including removal of the requirement to disclose the valuation processes for Level 3 fair value measurements and the additional requirement to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this ASU. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company adopted ASU 2018-13 for the period ending March 31, 2020. There were no material impact on the financial statements.

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS

Fair Value Measurements

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

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

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

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

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Assets Recorded at Fair Value - The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2022 and 2021:

Recurring Basis

	2022			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 542,473	$ -	$ 542,473	$ -
Obligations of states and political subdivisions	244,619	-	244,619	-
Government sponsored entities residential mortgage-backed securities	752,911	-	752,911	-
U.S. Treasuries	29,500	-	29,500	-
Other securities	6,145	-	6,145	-
Total assets measured at fair value	$ 1,575,648	$ -	$ 1,575,648	$ -

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

	2021			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 575,031	$ -	$ 575,031	$ -
Obligations of states and political subdivisions	220,529	-	220,529	-
Government sponsored entities residential mortgage-backed securities	581,281	-	581,281	-
U.S. Treasuries	26,390	-	26,390	-
Other securities	4,016	-	4,016	-
Total assets measured at fair value	$ 1,407,247	$ -	$ 1,407,247	$ -

Fair values for available-for-sale investment securities are based on quoted market prices for similar securities.

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

	2022			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate – commercial	$ 278	$ -	$ -	$ 278
Commercial	962	-	-	962
Lease financing	86	-	-	86
Consumer	2,635	-	-	2,635
Total assets measured at fair value on a non-recurring basis	$ 3,961	$ -	$ -	$ 3,961

	2021			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate – commercial	$ 958	$ -	$ -	$ 958
Commercial	502	-	-	502
Lease financing	173	-	-	173
Consumer	1,659	-	-	1,659
Total assets measured at fair value on a non-recurring basis	$ 3,292	$ -	$ -	$ 3292

(Continued)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Impaired loans are collateral dependent and have been adjusted to fair value based on the estimated fair value of the underlying collateral, less estimated selling costs. If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for loan and lease losses. Total losses of $5 and $0 represent impairment charges recognized during the years ended December 31, 2022 and 2021, respectively related to the above impaired loans.

The following methods were used to estimate the fair value of each class of assets above:

Impaired Loans – The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the credit administration department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a quarterly basis, the Bank compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for impaired loans measured at fair value on a non-recurring basis at December 31, 2022:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 278	Management estimates	a. Management adjustments based on net present value of cash flows.	0.54 to 4.94%
Commercial	$ 962	Management estimates	a. Management adjustments based on net present value of cash flows.	0.79% to 17.13%
		Management estimates	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	49.58%
Leasing	$ 86	Management estimates	a. Personal property collateral is discounted based on management's assessment of loss given default	100.00%
Consumer	$ 2,635	Liquidation Value	a. Adjustments can range up to 25% of liquidation costs plus 15% for related expenses.	25.00% to 39.74%
		Management estimates	b. Personal property collateral is discounted based on management's assessment of loss given default	1.05%

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for impaired financial instruments measured at fair value on a non-recurring basis at December 31, 2021:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 958	Management estimates	a. Management adjustments based on net present value of cash flows.	0.43% to 0.79% 0.52%
Commercial	$ 502	Management estimates	a. Management adjustments based on net present value of cash flows	0.45% to 50%
		Management estimates	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	11.05%
Leasing	$ 173	Management estimates	a. Personal property collateral is discounted based on management's assessment of loss given default.	.48% to 75.00%
			b. Management adjustments based on net present value of cash flows.	30.13%
Consumer	$ 1,659	Liquidation Value	a. Adjustments can range up to 25% of Liquidation costs plus 15% for related Expenses.	.28% to 40.00%
		Management estimates	b. Personal property collateral is discounted based on management's assessment of loss given default.	3.75%

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments: The estimated carrying amounts and fair values of the Bank's financial instruments are as follows:

December 31, 2022	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 48,373	$ 48,373	$ -	$ -	$ 48,373
Interest-bearing deposits In banks	1,000	1,000	-	-	1,000
Available-for-sale securities	1,575,648	-	1,575,648	-	1,575,648
FHLB stock	15,000	N/A	N/A	N/A	N/A
Loans and leases, net	1,466,368	-	-	1,448,571	1,448,571
Accrued interest receivable	11,580	6,263	265	5,052	11,580
Financial liabilities:					
Deposits	$ 3,066,281	$ 2,910,822	$ 155,459	$ -	$ 3,066,281
Accrued interest payable	427	356	71	-	427

December 31, 2021	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 472,969	$ 472,969	$ -	$ -	$ 472,969
Interest-bearing deposits In banks	17,000	16,997	-	-	16,997
Available-for-sale securities	1,407,247	-	1,407,247	-	1,407,247
FHLB stock	14,465	N/A	N/A	N/A	N/A
Loans and leases, net	1,466,260	-	-	1,461,156	1,461,156
Accrued interest receivable	10,936	5,672	219	5,046	10,937
Financial liabilities:					
Deposits	$ 3,179,118	$ 3,001,862	$ 177,256	$ -	$ 3,179,118
FHLB advance	-	-	-	-	-
Accrued interest payable	518	489	29	-	518

Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2022 and 2021 consisted of the following:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 629,043	$ -	$ (86,570)	$ 542,473
Obligations of states and political subdivisions	273,952	14	(29,347)	244,619
Government sponsored entities residential mortgage-backed securities	842,836	2	(89,927)	752,911
U.S. Treasuries	29,770	-	(270)	29,500
Other securities	6,834	-	(689)	6,145
	$ 1,782,435	$ 16	$ (206,803)	$ 1,575,648

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 584,325	$ 496	$ (9,790)	$ 575,031
Obligations of states and political subdivisions	217,989	3,853	(1,313)	220,529
Government sponsored entities residential mortgage-backed securities	581,579	4,240	(4,538)	581,281
U.S. Treasuries	25,836	554	-	26,390
Other securities	4,000	16	-	4,016
	$ 1,413,729	$ 9,159	$ (15,641)	$ 1,407,247

Net unrealized gains (losses) on available-for-sale investment securities totaling $(206,787) and $(6,482) were recorded, net of $145,653 and $4,566 in deferred tax assets (liabilities), as accumulated other comprehensive income within stockholders' equity at December 31, 2022 and 2021, respectively. There were no sales of available-for-sale investments during the years ended December 31, 2022 and 2021. There were no transfers of available-for-sale investment securities for the years ended December 31, 2022 and 2021. There were no holdings of securities of any one issuer, other than the US Government and it’s agencies, which exceeds 10% of the stockholders’ equity as of December 31, 2022 and 2021.

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Available-for-sale investment securities with unrealized losses at December 31, 2022 and 2021 are summarized and classified according to the duration of the loss period as follows:

	2022		2021	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Less than twelve months:				
U.S. Government agencies	$ 69,379	$ (3,511)	$ 457,290	$ (7,307)
Obligations of states and political subdivisions	134,702	(9,872)	80,245	(1,283)
Government guaranteed mortgage backed securities	372,676	(27,416)	419,336	(4,538)
U.S. Treasury	29,500	(270)	-	-
Other securities	-	-	-	-
Greater than twelve months:				
U.S. Government agencies	$ 473,091	$ (83,059)	$ 79,172	$ (2,483)
Obligations of states and political subdivisions	106,617	(19,475)	1,145	(30)
Government guaranteed mortgage backed securities	380,029	(62,512)	-	-
U.S. Treasury	-	-	-	-
Other securities	6,145	(688)	-	-
	$ 1,572,139	$ (206,803)	$ 1,037,188	$ (15,641)

U.S. Treasury and U.S. Government Agencies: The Bank holds 250 securities issued by U.S. Treasury and U.S Government Agencies, of which 36 have been in a continuous loss position for less than 12 months and 214 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in U.S. Treasuries and Government agencies are caused by the fluctuation in interest rates and are not attributable to changes in credit quality. Management intends to hold these investments until at least a recovery of fair value or until maturity. Because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

Obligations of States and Political Subdivisions: The Bank holds 425 securities issued by state and political subdivisions, of which 219 have been in a continuous loss position for less than 12 months and 200 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in obligations of states and political subdivisions are a result of the fluctuation in interest rates. The contractual cash flows of these investments are considered a general obligation of, or supported by specific revenues of, a state or local municipality and the Bank intends to hold these investments until at least a recovery of fair value or until maturity. Therefore, the Bank expects to collect all amounts due, and because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery it does not consider these securities to be other-than-temporarily impaired at December 31, 2022.

(Continued)

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Government Guaranteed Mortgage Backed Securities: The Bank holds 297 Government Guaranteed Mortgage Backed Securities, of which 203 have been in a continuous loss position for less than 12 months and 92 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in government guaranteed mortgage backed securities is caused by the fluctuation in interest rates and is not attributable to changes in credit quality. Management intends to hold these investments until at least a recovery of fair value or until maturity. Because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

Other Securities: Management continually evaluates the portfolio for credit issues that it believes may have an impact on the ability to fully recover the amortized cost basis of the bond and would therefore be considered a permanent impairment. The Bank holds 3 corporate bonds, of which none have been in a continuous loss for less than 12 months and 3 which have been in a continuous loss position for 12 months or longer. Management believes the unrealized losses on the Bank's investment in corporate bonds is caused by the fluctuation in interest rates and is not attributable to changes in credit quality. The Bank does not have the intent to sell these securities and it is likely it will not be required to sell the securities before their anticipated recovery, the Bank does not consider the remaining investments to be other-than-temporarily impaired at December 31, 2022.

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to call or prepay obligations with or without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	$ 40,001	$ 39,691
After one year through five years	398,907	361,938
After five years through ten years	373,652	310,320
After ten years	127,036	110,785
	939,596	822,734
Investment securities not due at a single maturity date:		
Government sponsored entities mortgage-backed securities	842,836	752,914
	$ 1,782,432	$ 1,575,648

Investment securities with amortized costs of $12,458 and $14,274 and fair values of $12,282 and $14,164 as of December 31, 2022 and 2021, respectively, were pledged to secure public and trust deposits, FHLB borrowing arrangements (see Note 8) and for other purposes required or permitted by law.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES

Loans and leases are reported net of deferred loan origination fees and costs of $1,865 in 2022 and $(271) in 2021 and consist of the following at December 31:

	2022	2021
Real estate – commercial	$ 747,386	$ 757,760
Real estate – construction	110,853	81,986
Commercial	163,940	227,343
Lease financing	15,819	30,383
Consumer	471,910	412,635
Total	1,509,908	1,510,107
Less: Allowance for loan and lease losses	(43,540)	(43,847)
	$ 1,466,368	$ 1,466,260

During 2021, in addition to the $264,380 provided in 2020, the Bank has provided $124,927 in Paycheck Protection Program ("PPP") loans to its customers in 2021. As of December 31, 2022 and 2021, respectively these loans have a balance of $504 and $58,185 and are recorded with commercial loans above. The Bank has $31 and $2,312 of deferred fees related to the PPP loans as of December 31, 2022 and 2021. During the year-ended December 31, 2022 and 2021, the Bank recognized $2,281 and $8,868 respectively in fees in interest income. The loans are fully guaranteed by the SBA and the Bank anticipates that most PPP loans will be forgiven in accordance with the SBA's requirements.

The components of the Bank's leases receivable at December 31 are as follows:

	2022	2021
Future lease payments receivable	16,624	32,502
Deferred broker costs	258	526
Unearned income	(1,063)	(2,645)
Net lease financing receivable	$ 15,819	$ 30,383

Future lease payments receivable are as follows:

Year Ending December 31,	
2023	$ 2,380
2024	4,847
2025	5,472
2026	3,772
2027	153
	$ 16,624

Certain loans have been pledged to secure borrowing arrangements (see Note 8).

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

Activity in the allowance for loan and lease losses for the years ended December 31, 2022 and 2021 was as follows:

	2022	2021
Balance, beginning of year	$ 43,847	$ 41,668
Provision for loan and lease losses	-	2,000
Loans charged-off	(764)	(580)
Recoveries	457	759
Balance, end of year	$ 43,540	$ 43,847

The following tables show the activity of the allowance for loan and lease losses for the year ended December 31, 2022 and 2021 by portfolio segment, and the allocation of the allowance for loan and lease losses at December 31, 2022 and 2021 by portfolio segment and by impairment methodology:

	December 31, 2022					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance	$ 28,919	$ 2,091	$ 4,399	$ 1,207	$ 7,231	$ 43,847
Provision for loan and lease losses	(829)	367	(319)	(567)	1,348	-
Loans charged-off	-	-	(184)	(289)	(291)	(764)
Recoveries	-	34	63	281	79	457
Ending balance allocated to portfolio segments	$ 28,090	$ 2,492	$ 3,959	$ 632	$ 8,367	$ 43,540
Ending balance: individually evaluated for impairment	$ 4	$ -	$ 197	$ 65	$ 59	$ 325
Ending balance: collectively evaluated for impairment	$ 28,086	$ 2,492	$ 3,762	$ 567	$ 8,308	$ 43,215
Loans						
Ending balance	$ 747,386	$ 110,853	$ 163,940	$ 15,819	$ 471,910	$1,509,908
Ending balance: individually evaluated for impairment	$ 1,955	$ -	$ 1,917	$ 174	$ 3,103	$ 7,149
Ending balance: collectively evaluated for impairment	$ 745,431	$ 110,853	$ 162,023	$ 15,645	$ 468,807	$1,502,759

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2021					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance	$ 18,480	$ 7,328	$ 9,481	$ 1,090	$ 5,289	$ 41,668
Provision for loan and lease losses	10,278	(5,641)	(5,073)	289	2,147	2,000
Loans charged-off	-	-	(77)	(251)	(252)	(580)
Recoveries	161	404	68	79	47	759
Ending balance allocated to portfolio segments	$ 28,919	$ 2,091	$ 4,399	$ 1,207	$ 7,231	$ 43,847
Ending balance: individually evaluated for impairment	$ 5	$ -	$ 83	$ 75	$ 64	$ 227
Ending balance: collectively evaluated for impairment	$ 28,914	$ 2,091	$ 4,316	$ 1,132	$ 7,167	$ 43,620
Loans						
Ending balance	$ 757,760	$ 81,986	$ 227,343	$ 30,383	$ 412,635	$1,510,107
Ending balance: individually evaluated for impairment	$ 1,751	$ -	$ 1,357	$ 314	$ 4,358	$ 7,780
Ending balance: collectively evaluated for impairment	$ 756,009	$ 81,986	$ 225,986	$ 30,069	$ 408,277	$1,502,327

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2022 and 2021:

	December 31, 2022 Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Total
Grade:					
Pass	$ 733,472	$ 95,885	$ 161,023	$ 15,496	$ 1,005,876
Special Mention	10,813	5,903	421	90	17,227
Substandard	3,101	9,065	2,496	233	14,895
Total	$ 747,386	$ 110,853	$ 163,940	$ 15,819	$ 1,037,998

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2022 Consumer Credit Exposure Credit Risk Profile Based on Payment Activity	
	Consumer	Total
Grade:		
Performing	$ 466,139	$ 466,139
Non-performing	5,771	5,771
Total	$ 471,910	$ 471,910

	December 31, 2021 Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Total
Grade:					
Pass	$ 742,892	$ 79,679	$ 223,160	$ 29,717	$ 1,075,448
Special Mention	9,196	-	1,701	207	11,104
Substandard	5,672	2,307	2,482	459	10,920
Total	$ 757,760	$ 81,986	$ 227,343	$ 30,383	$ 1,097,472

	December 31, 2021 Consumer Credit Exposure Credit Risk Profile Based on Payment Activity	
	Consumer	Total
Grade:		
Performing	$ 406,799	$ 406,799
Non-performing	5,836	5,836
Total	$ 412,635	$ 412,635

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2022 and 2021:

	December 31, 2022					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ -	$ -	$ 918	$ 918	$ 746,468	$ 747,386
Real estate – construction	-	-	-	-	110,853	110,853
Commercial	18	-	1,673	1,691	162,249	163,940
Lease financing	-	-	151	151	15,668	15,819
Consumer	270	-	412	682	471,228	471,910
Total	$ 288	$ -	$ 3,154	$ 3,442	$ 1,506,466	$ 1,509,908

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2021					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ 2,870	$ -	$ 754	$ 3,624	$ 754,136	$ 757,760
Real estate – construction	-	-	-	-	81,986	81,986
Commercial	59	271	779	1,109	226,234	227,343
Lease financing	61	-	285	346	30,037	30,383
Consumer	404	-	2,451	2,855	409,780	412,635
Total	$ 3,394	$ 271	$ 4,269	$ 7,934	$ 1,502,173	$ 1,510,107

The following tables show information related to impaired loans at and for the years ended December 31, 2022 and 2021:

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate – commercial	$ 1,673	$ 1,832	$ -	$ 1,046	$ -
Commercial	$ 758	$ 1,032	$ -	$ 775	$ 17
Lease financing	$ 23	$ 23	$ -	$ 25	$ 2
Consumer	$ 409	$ 725	$ -	$ 412	$ 7
With an allowance recorded:					
Real estate – commercial	$ 282	$ 282	$ 4	$ 373	$ 22
Commercial	$ 1,159	$ 1,169	$ 197	$ 1,238	$ 55
Lease financing	$ 151	$ 151	$ 65	$ 183	$ -
Consumer	$ 2,694	$ 2,694	$ 59	$ 2,725	$ 69
Total:					
Real estate – commercial	$ 1,955	$ 2,114	$ 4	$ 1,419	$ 22
Commercial	$ 1,917	$ 2,201	$ 197	$ 2,013	$ 72
Lease financing	$ 174	$ 174	$ 65	$ 208	$ 2
Consumer	$ 3,103	$ 3,419	$ 59	$ 3,137	$ 76

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate – commercial	$ 789	$ 2,302	$ -	$ 1,672	$ 3
Commercial	$ 792	$ 1,049	$ -	$ 801	$ 18
Lease financing	$ 66	$ 66	$ -	$ 81	$ 2
Consumer	$ 2,634	$ 3,004	$ -	$ 2,694	$ 29
With an allowance recorded:					
Real estate – commercial	$ 962	$ 962	$ 5	$ 980	$ 50
Commercial	$ 565	$ 573	$ 83	$ 584	$ 20
Lease financing	$ 248	$ 248	$ 75	$ 296	$ -
Consumer	$ 1,724	$ 1,749	$ 64	$ 1,787	$ 65
Total:					
Real estate – commercial	$ 1,751	$ 3,264	$ 5	$ 2,652	$ 53
Commercial	$ 1,357	$ 1,622	$ 83	$ 1,385	$ 38
Lease financing	$ 314	$ 314	$ 75	$ 377	$ 2
Consumer	$ 4,358	$ 4,753	$ 64	$ 4,481	$ 94

Non-accrual loans totaled $3,154 and $4,269 at December 31, 2022 and 2021, respectively. Accruing loans that were past due 90 days or more totaled $0 at December 31, 2022, as compared to $271 at December 31, 2021.

Included in the impaired loans above are 19 loans in the amount of $6,018 and 24 loans in the amount of $4,977 that were considered to be troubled debt restructurings at December 31, 2022 and December 31, 2021, respectively.

For the years ended December 31, 2022 and 2021, the average recorded investment in impaired loans was $6,777 and $8,895, respectively. The Bank had $325 of specific allowance for loan and lease losses on impaired loans with a recorded investment of $4,519 at December 31, 2022 as compared to $227 of specific allowance for loan and lease losses on impaired loans with a recorded investment of $7,780 at December 31, 2021. Interest income on a cash basis was not significant. The impact of interest on non-accrual loans reflects a net loss of $258 for the year ended December 31, 2022, compared with the net loss of $230 for the year ended December 31, 2021.

Salaries and employee benefits totaling $2,108 and $2,572 have been deferred as loan and lease origination costs for the years ended December 31, 2022 and 2021, respectively.

The Bank has allocated $325 and $227 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022 and 2021. The Bank has no commitment to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings, as of December 31, 2022.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

During the periods ending December 31, 2022 and 2021, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 5 years. Modifications involving an extension of the maturity date were for periods ranging from 6 months to 24 months.

The following table presents loans by class modified as troubled debt restructurings that occurred during the period ended December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	1	$ 1,774	$ 1,673
Real estate – construction	-	-	-
Commercial	2	832	818
Lease financing	-	-	-
Consumer	2	11	11
Total	5	$ 2,617	$ 2,502

The troubled debt restructurings described above increased the allowance for loan losses by $40 and resulted in $0 in charge offs during the period ended December 31, 2022.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended December 31, 2022:

	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real Estate – Commercial	1	$ 1,673
Commercial	1	275
Consumer	1	3
Total	3	$ 1,951

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the period ended December 31, 2021:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	-	$ -	$ -
Real estate – construction	-	-	-
Commercial	2	511	493
Lease financing	-	-	-
Consumer	1	1,137	1,137
Total	3	$ 1,648	$ 1,630

The troubled debt restructurings described above increased the allowance for loan losses by $43 and resulted in $0 in charge offs during the period ended December 31, 2021.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended December 31, 2021:

	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real Estate - Commercial	1	1,137
Total	1	$ 1,137

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification.

(In thousands, except per share amounts)

NOTE 5 – FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to own capital stock in an amount specified by regulation. At December 31, 2022 and 2021, the Bank owned 150,000 and 144,653 shares of $100 par value FHLB stock respectively. The stock is carried at cost and is redeemable at par with certain restrictions. The amount of stock required to be held is adjusted periodically based on a determination made by the FHLB.

NOTE 6 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31 consist of the following:

	2022	2021
Land	$ 3,423	$ 3,462
Buildings	31,872	31,569
Leasehold improvements	6,198	6,356
Equipment	21,038	20,784
Construction in progress	227	153
	62,758	62,324
Less: accumulated depreciation and amortization	(45,541)	(43,607)
	$ 17,217	$ 18,717

Depreciation and amortization expense were $2,243 and $2,516 for the years ended December 31, 2022 and 2021, respectively.

NOTE 7 – INTEREST-BEARING DEPOSITS

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

	2022	2021
Savings	$ 706,092	$ 706,719
Money market	392,223	420,451
NOW accounts	622,765	642,026
Time, $250,000 or more	51,170	56,533
Other time	104,289	120,723
	$ 1,876,539	$ 1,946,452

The Bank's other time deposits included brokered deposits which totaled $2,701 or 0.1% and $4,048 or 0.1% of total deposits, respectively, at December 31, 2022 and 2021. Brokered deposits were entirely under the Certificate of Deposit Account Registry Service (CDARS) program, which allows the Bank's deposit customers to have the entire balance of their certificate of deposit account insured by the FDIC. There were no wholesale brokered certificates of deposit at December 31, 2022 and 2021.

(Continued)

(In thousands, except per share amounts)

NOTE 7 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits at December 31, 2022 are as follows:

Year Ending December 31,	
2023	$ 126,714
2024	20,304
2025	4,955
2026	3,150
2027	336
	$ 155,459

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER LONG-TERM DEBT

Federal Home Loan Bank Advances: The Bank may borrow from the Federal Home Loan Bank, on either a short-term or long-term basis, up to 30% of its assets provided that adequate collateral has been pledged. As of December 31, 2022, the Bank has pledged investment securities with a carrying value of $71,850 and loans with a carrying value of $853,717 to secure this borrowing arrangement. There were $20,000 and zero outstanding advances from the Federal Home Loan Bank of San Francisco at December 31, 2022 and 2021 respectively. The December 31, 2022 $20,000 outstanding advance has a daily maturity with a variable rate of 4.59%

Lines of Credit: The Bank has an unsecured line of credit of $50,000 and $50,000 with its correspondent bank, Pacific Coast Banker's Bank as of December 31, 2022 and 2021 and a $10,000 and $10,000 unsecured line of credit with its correspondent bank, Wells Fargo as of December 31, 2022 and 2021 respectively. There are no outstanding balances at December 31, 2022 and 2021.

NOTE 9 – INCOME TAXES

The expense (benefit) from income taxes for the years ended December 31, 2022 and 2021 consisted of the following:

	Federal	State	Total
2022			
Current	$ 7,952	$ 3,774	$ 11,726
Deferred	484	396	880
Provision for income taxes	$ 8,436	$ 4,170	$ 12,606
2021			
Current	$ 8,933	$ 5,212	$ 14,145
Deferred	(129)	122	(7)
Provision for income taxes	$ 8,804	$ 5,334	$ 14,138

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) are included in accrued interest receivable and other assets and are comprised of the following at December 31, 2022 and 2021:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 12,827	$ 12,917
Deferred compensation	4,932	4,987
Postretirement benefits	1,477	1,641
Restructuring reserve	-	46
Nonaccrual interest	182	230
State taxes	979	1,080
Deferred gain	271	340
Bank premises and equipment	848	445
Amortization of trust assets	117	115
Lease liability	2,427	2,348
Unrealized losses on available for sale investment securities	61,134	1,916
Other	416	304
Total deferred tax assets	85,610	26,369
Deferred tax liabilities:		
Deferred loan costs	(669)	(803)
Prepaid expenses	(158)	(136)
Pension expenses	(6,581)	(7,761)
FHLB stock dividends	(272)	(272)
Right of Use asset	(2,427)	(2,348)
Other	(213)	(267)
Total deferred tax liabilities	(10,320)	(11,587)
Net deferred tax assets	$ 75,290	$ 14,782

The effective tax rate, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

	Year Ended December 31,	
	2022	2021
Federal income tax expense, at statutory rate	21.0%	21.0%
State franchise tax, net of Federal tax effect	6.6	8.3
Tax-exempt interest on obligations of states and political subdivisions	(1.0)	(.7)
Cash surrender value of life insurance	(1.2)	(.8)
Tax credits	(.1)	(.1)
Other	(.1)	.3
Effective tax rate	25.2%	28.0%

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES (Continued)

The Bank files income tax returns in the United States jurisdiction and the State of California jurisdiction. The Bank is no longer subject to Federal income tax examinations by tax authorities for years before 2019. The Bank is no longer subject to California income tax examinations by tax authorities for years before 2018.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2022 and 2021, the Bank recognized no interest or penalties.

NOTE 10 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers during 2022:

Balance, January 1, 2022	$ 11,379
Disbursements	1,335
Amounts repaid	(1,570)
Change in relationship	-
Balance, December 31, 2022	$ 11,144
Undisbursed commitments to related parties, December 31, 2022	$ 6,007

(Continued)

(In thousands, except per share amounts)

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following is changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2022 and 2021:

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2022				
Beginning Balance	$ (4,566)	$ (3,251)	$ 413	$ (7,404)
Amounts reclassified from accumulated other comprehensive income	-	(63)	-	(63)
Net current period other comprehensive income (loss)	(141,086)	(4,594)	(514)	(146,194)
Ending balance	$ (145,652)	$ (7,908)	$ (101)	$ (153,661)

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2021				
Beginning Balance	$ 12,965	$ (6,793)	$ 321	$ 6,493
Amounts reclassified from accumulated other comprehensive income	-	(85)	-	(85)
Net current period other comprehensive income (loss)	(17,531)	3,627	92	(13,812)
Ending balance	$ (4,566)	$ (3,251)	$ 413	$ (7,404)

(Continued)

(In thousands, except per share amounts)

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2022:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	$ (50)	Other expense
	(13)	Provision for income taxes
	$ (63)	Net of tax

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2021:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	$ (67)	Other expense
	(18)	Provision for income taxes
	$ (85)	Net of tax

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN

The following presents the reconciliations of plan benefit obligations and plan assets from beginning of year to end of year. The Bank uses a December 31 measurement date for the Plan.

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 49,475	$ 53,340
Service cost	-	-
Interest cost	1,446	1,388
Benefits paid	(2,693)	(2,921)
Actuarial (gain) loss	(8,021)	(2,332)
Benefit obligation at end of year	$ 40,207	$ 49,475
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 75,727	$ 70,542
Employer contribution	-	-
Benefits and expenses paid	(2,693)	(2,921)
Actual return on plan assets	(10,567)	8,106
Fair value of plan assets at end of year	$ 62,467	$ 75,727
Funded status at end of year	$ 22,260	$ 26,252

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2022	2021
Net actuarial loss	$ 8,284	$ 1,455
Prior service cost (credit)	-	-
	$ 8,284	$ 1,455

The accumulated benefit obligation was $40,207 and $49,475 at December 31, 2022 and 2021. The Bank does not expect to contribute to the Plan in 2023. The bank intends to terminate the pension plan in the first quarter of 2023.

NOTE 12 – RETIREMENT PLAN (Continued)

(In thousands, except per share amounts)

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2022 and 2021.

2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents	$ 24,877	$ 24,877	$ -	$ -
Equity securities:				
U.S. large-cap (a)	4,620	4,620	-	-
U.S. small-cap (b)	720	720	-	-
International large-cap (c)	1,477	1,477	-	-
Fixed income securities:				
U.S. corporate bond funds (e)	6,900	6,900	-	-
U.S. Total Bond Market fund (f)	23,873	23,873	-	-
Total	$ 62,467	$ 62,467	$ -	$ -

2021	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents	$ 600	$ 600	$ -	$ -
Equity securities:				
U.S. large-cap (a)	27,441	27,441	-	-
U.S. small-cap (b)	3,991	3,991	-	-
International large-cap (c)	7,429	7,429	-	-
Fixed income securities:				
U.S. corporate bond funds (e)	8,107	8,107	-	-
U.S. Total Bond Market fund (f)	28,159	28,159	-	-
Total	$ 75,727	$ 75,727	$ -	$ -

(In thousands, except per share amounts)

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500, as well as actively managed funds that track the Russell 100 value index.
(b) This category represents low-cost actively managed and broadly diversified U.S. small cap equity funds.
(c) This category represents low cost index enhanced and broadly diversified Non U.S. large cap international funds.
(d) This category represents individual government agency fixed income debentures of a short to intermediate term to maturity.
(e) This category represents low-cost actively managed U.S. investment grade bond funds.
(f) This category represents a low-cost bond index fund passively managed to track the broad U.S. fixed income markets.

The fair values for equity securities and mutual funds are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). Certain debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

In accordance with the "Prudent Expert" rule, the Plan attempts to achieve a balance of risk and reward that will provide the Plan with the greatest risk-adjusted return on assets. The maximization of risk-adjusted return is accomplished by broadly diversifying assets within the major financial asset classes and by maintaining a discipline to the target asset allocation of the Plan. The Plan is managed through a relatively passive approach to asset allocation. The Investment Manager maintains the policy asset allocation listed below except for those unusual and well documented market related events that may dictate otherwise. Stated below is the policy asset allocation at market values of Plan assets. This is the long term asset allocation desired by the Board, which should approximate the actual average asset allocation over a three to five year period. In practice asset allocation is monitored on a monthly basis and at such time as any of the minimum or maximum target asset allocations are pierced, a rebalancing transaction is required to bring all asset allocations back to policy target ranges.

Historically, the stated are the maximum and minimum asset allocation levels at market for each asset category as well as the weighted average expected return for each asset class.

	Minimum	Policy	Maximum	Weighted Average Expected Return
Equity	50%	65%	80%	2.00%
Fixed income	25%	35%	45%	2.00%
Cash and equivalents	0%	0%	5%	0%

In preparation for the expected termination of the Plan in 2023, the Bank has shifted the Plan's investments to those with less interest rate risk including cash.

(In thousands, except per share amounts)

The allocation by asset category of the pension plan assets at December 31 is as follows:

	2022	2021
Asset category:		
Equity	11%	51%
Fixed income	49%	48%
Other	40%	1%
Total	100%	100%

The primary investment objective for the Plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality and diversification guidelines and restrictions approved by the retirement committee. The asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies with the goal to enhance the expected return of the retirement portfolio while maintaining acceptable levels of risk.

The components of 2022 and 2021 net periodic benefit cost are as follows:

	2022	2021
Service cost	$ -	$ -
Interest cost	1,446	1,388
Expected return on plan assets	(4,283)	(3,986)
Amortization of unrecognized prior service cost	-	-
Recognized prior service cost due to curtailment	-	-
Amortization of unrecognized actuarial loss	-	5
Total net periodic cost	$ (2,837)	$ (2,593)
Net (gain) loss, including curtailment	$ 6,829	$ (6,452)
Prior service cost	-	-
Amortization of prior service cost	-	-
Amortization of net gain (loss)	-	(5)
Total recognized in other comprehensive income	6,829	(6,457)
Total recognized in net periodic benefit cost and other comprehensive income	$ 3,992	$ (9,050)

The estimated net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $5,835 as of December 31, 2022. The recognition of the net actuarial loss is expected due to the Plan termination in 2023. The net actuarial loss in accumulated other comprehensive income will be offset by approximately $20,000 in gain from Plan assets in excess of Plan liabilities at the time of termination.

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

The weighted average assumptions used to determine benefit obligations at December 31:

	2022	2021
Discount rate	5.23%	3.00%
Rate of compensation increase	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost at December 31:

	2022	2021
Discount rate	3.00%	2.70%
Rate of compensation increase	N/A	N/A
Expected return of plan assets	5.75%	5.75%

The expected return on retirement plan assets is developed using inflation expectations and risk factors to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending December 31,	Pension Benefits
2023	$ 40,716

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN

The following presents the postretirement healthcare plan's combined funded status:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 6,038	$ 5,565
Service cost	19	(753)
Plan Amendment	-	844
Interest cost	2	120
Benefits paid	(486)	(365)
Plan participant contribution	-	68
Actuarial (gain) loss	(40)	559
Benefit obligation at end of year	$ 5,533	$ 6,038
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 5,891	$ 4,151
Other payments	(1)	(781)
Plan participant contribution	-	68
Benefits paid	(486)	(365)
Employer contribution	53	2,860
Actual return on plan assets	83	(42)
Fair value of plan assets at end of year	$ 5,540	$ 5,891
Plan assets less benefit obligation at end of year	$ 7	$ (147)

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2022	2021
Net actuarial loss	$ 2,157	$ 2,325
Prior service cost	785	835
	$ 2,942	$ 3,160

The accumulated benefit obligation was $5,533 and $6,038 at December 31, 2022 and 2021. The Bank does not expect to contribute to the Plan in 2023.

	2022	2021
Components of net periodic benefit cost:		
Service cost	$ 20	$ 27
Interest cost	2	120
Expected return on plan assets	(56)	(63)
Loss (gain)	101	72
Amortization of unrecognized prior service cost	50	8

(Continued)

(In thousands, except per share amounts)

Total net periodic benefit cost	$ 117	$ 164

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

	2022	2021
Net loss (gain)	$ (67)	$ 664
Amortization of net (gain) loss	(101)	(72)
Prior Service costs	-	844
Amortization of prior service cost	(50)	(8)
Total recognized in other comprehensive income	(218)	1,428
Total recognized in net periodic benefit cost and other comprehensive income	$ (101)	$ 1,592

The following table represents the assumed health care trend rates at December 31:

	2022	2021
Health care trend rate assumed for next year	5.50%	5.50%
Rate to which the cost trend rate is assumed to decline	5.50%	5.50%
Year that the rate reaches the ultimate trend rate	2010	2010

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2022 and 2021.

2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 5,540	$ 5,540	$ -	$ -
Total	$ 5,540	$ 5,540	$ -	$ -

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

2021	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 5,891	$ 5,891	$ -	$ -
Total	$ 5,891	$ 5,891	$ -	$ -

The fair values for equity securities and mutual funds are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). Certain debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities" relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

As of November 1, 2021, the Plan was amended and is no longer a fully-insured medical plan nor a self-funded dental and vision plan for its retirees. After the amendment, the plan consists of individual retiree health reimbursement accounts to help eligible retirees pay for medical, dental, vision and prescription drug plans.

For the plan amendment, all investments were converted to cash. The Plan will only hold cash going forward.

Stated are the maximum and minimum asset allocation levels at market for each asset category as well as the weighted average expected return for each asset class.

	Policy	Weighted Average Expected Return
Cash and equivalents	100%	0%

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

The allocation by asset category of the postretirement healthcare plan assets at December 31 is as follows:

	2022	2021
Asset category:		
Other	100%	100%
Total	100%	100%

The Bank uses a December 31 measurement date for the Plan. For measurement purposes, the healthcare trend rate of 5.5% was used in 2022 and 2021. They will remain at that level thereafter except where the Bank's contribution limit applies. The healthcare cost trend rate assumptions have a significant effect on the amounts reported, but their impact is lessened because the Bank limits its annual increase at twice the 1991 average premium rate. Increasing or decreasing the assumed healthcare cost trend rates by 1.0% in each year would not change the accumulated postretirement benefit obligation nor would the aggregate of the service and interest components of net periodic postretirement benefit cost change.

The weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	2022	2021
Discount rate	5.40%	3.00%
Rate of compensation increase	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost at December 31 are as follows:

	2022	2021
Discount rate	3.00%	2.70%
Expected return of plan assets	1.00%	1.50%
Rate of compensation increase	N/A	N/A

The expected return on retirement plan assets is developed using inflation expectations and risk factors to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

The plan assets are invested in a 501(c)(9) Voluntary Employees' Beneficiary Association trust which is subject to unrelated business income tax. The plan assets were funded by the Bank initially on December 31, 1991 and periodic contributions have been made since then. As of December 31, 2022, these were only liquid investments.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. The Plan was designed to provide only for healthcare premiums and, consequently,

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

the measures of the postretirement benefit obligations and net periodic postretirement benefit cost do not reflect effects of the Act.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending December 31,	Pension Benefits
2023	$ 476
2024	$ 465
2025	$ 451
2026	$ 439
2027	$ 426
2028 through 2032	$ 1,879

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance-Sheet Risk: The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments represent commitments to originate fixed and variable rate loans and lines of credit and involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the Bank's consolidated balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments to originate loans and lines of credit as it does for on-balance sheet instruments.

The following financial instruments represent off-balance-sheet credit risk at December 31:

	2022	2021
Commitments to extend credit	$ 447,195	$ 432,825
Standby letters of credit	12,436	12,436
Total loan commitments	$ 459,631	$ 445,261

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. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include deposit accounts, accounts receivable, inventory, equipment and deeds of trust on residential real estate, land held for development and income-producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to commitments to extend

(Continued)

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

credit and standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2022 and 2021. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Contingencies: The Bank is involved in legal proceedings arising in the normal course of business. In the opinion of management, the outcomes of such proceedings will not have a material adverse effect on the Bank's financial position or results of operations.

Uninsured Deposits: The Bank maintains funds on deposit with the Federal Home Loan Bank (FHLB) and other federally insured financial institutions under correspondent banking agreements. Uninsured deposits with the FHLB and correspondent banks totaled $8,822 and $6,851 at December 31, 2022 and 2021, respectively.

Postretirement Benefits: The Bank has salary continuation agreements in place to provide nonqualified defined benefit retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased split-dollar single premium life insurance policies on each participant The agreements provide that each executive will receive annual benefits over their lifetime commencing with the month following their normal retirement date.

The Bank accrues for these future benefits from the effective date of the agreements until the executives' expected final payment dates in a systematic and rational manner. As of December 31, 2022, and 2021, the Bank had accrued $12,267 and $12,625, respectively, for benefits payable. This payable approximates the then present value of the benefits expected to be provided at retirement. The expense recognized under these agreements totaled $1,029 and $468 for the years ended December 31, 2022 and 2021, respectively. Amounts recognized in accumulated other comprehensive income as of December 31, 2022 and 2021, were not considered material.

The Bank has also established a deferred compensation plan for certain members of management for the purpose of providing the opportunity to defer compensation. At December 31, 2022 and 2021, the liability for accrued deferred compensation, including interest earned, totaled $4,052 and $4,579, respectively.

The Bank has also executed split-dollar life insurance agreements with certain employees in connection with the salary continuation agreements and deferred compensation plan whereby the Bank has effectively agreed to maintain a life insurance policy during the employees' postretirement period. The Bank had accrued a liability at December 31, 2022 and 2021 in the amount of $2,925 and $2,856, respectively, representing the actuarial present value of the costs to maintain life insurance during the employees' postretirement period.

The cash surrender value of life insurance purchased in connection with these agreements totaled $66,597 and $64,453 as of December 31, 2022 and 2021, respectively.

(Continued)

(In thousands, except per share amounts)

NOTE 15 – REGULATORY MATTERS

Dividend Restrictions: The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. In addition, subject to prior regulatory approval, any state banking association may request an exception to this restriction.

Regulatory Capital: Banks are subject to regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and prompt corrective action regulation involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. On January 1, 2015, the final rules of the Federal Reserve Board went into effect implementing in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision. Under the BASEL III rules, the minimum capital ratios are 4% for Tier 1 Leverage Capital Ratio, 4.5% for the Common Equity Tier 1 Capital Ratio, 6% for the Tier 1 Risk-Based Capital Ratio and 8% for the Total Risk-Based Capital Ratio. The net unrealized gain or loss on available for sale securities and defined benefit plans are not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications; well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt correction action. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The following table represents the Bank’s regulatory capital position as of December 31, 2022 and 2021 in relationship to the regulatory requirements to meet the definitions of adequately capitalized and well capitalized. There is an additional element of capital required referred to as the capital conservation buffer that is not included in this table. The capital conservation buffer adds another level of capital of 2.50% over the adequately capitalized ratios and is required to eliminate any regulatory restrictions from the Bank’s ability to issued dividends, complete stock buybacks or pay management discretionary bonuses.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Minimum Amount	Minimum Ratio	Minimum Amount	Minimum Ratio
December 31, 2022						
Total capital (to risk-weighted assets)	$ 380,252	19.54%	$ 155,707	8.0%	$ 194,633	10.0%
Tier 1 capital (to risk-weighted assets)	$ 355,686	18.27%	$ 116,780	6.0%	$ 155,707	8.0%
Common Tier 1 (CET I)	$ 355,686	18.27%	$ 87,585	4.5%	$ 126,512	6.5%
Tier 1 capital (to average assets)	$ 355,686	10.15%	$ 140,127	4.0%	$ 175,159	5.0%
December 31, 2021						
Total capital (to risk-weighted assets)	$ 347,078	21.50%	$ 129,147	8.0%	$ 161,433	10.0%
Tier 1 capital (to risk-weighted assets)	$ 326,606	20.23%	$ 96,860	6.0%	$ 129,147	8.0%
Common Tier 1 (CET I)	$ 326,606	20.23%	$ 72,645	4.5%	$ 104,932	6.5%
Tier 1 capital (to average assets)	$ 326,606	9.15%	$ 142,712	4.0%	$ 178,390	5.0%

(Continued)

(In thousands, except per share amounts)

NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS

A subset of our noninterest income relates to certain fee-based revenue within the scope of ASC 606 – *Revenue from Contracts with Customers*. The objective of the standard is to clarify the principles for recognizing revenue from contracts with customers across all industries and to develop a common revenue standard under GAAP. All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Bank's sources of Non-Interest Income for the twelve months ended December 31, 2022 and 2021, respectfully. Items outside the scope of ASC 606 are noted as such.

	2022	2021
Non-interest Income		
Service charges and fees	$ 3,279	$ 3,159
Trust income	10,024	10,482
Merchant discount and interchange fees	5,200	3,904
Income from bank owned life insurance[a]	2,121	1,902
Other income[a]	3,744	4,198
Total non-interest income	$ 24,368	$ 23,645

[a]Not within the scope of ASC 606.

A description of the Bank's revenue streams accounted for under ASC 606 follows.

Service charges and fees: Retail Banking provides demand deposit, money market and savings account products for consumer and small business customers. Services include online and branch banking, overdraft, ATM use fees, wire transfer services, imaging services and cash alternative services such as cashier's checks. We recognize fee income at the time these services are performed for the customer.

Trust Services: Services provided to Trust customers are a series of distinct services that have the same pattern of transfer each month. Fees for trust accounts are billed and drafted from trust accounts on a predominately monthly basis. The Bank records these fees on the income statement on a monthly basis. Fees are assessed based on the total investable assets of the customer's trust account. A signed contract between the Bank and the customer is maintained for all customer trust accounts with payment terms identified. It is probable that the fees will be collectible as funds being managed are accessible by the asset manager. Past history of trust fee income recorded by the Bank indicates it is highly unlikely that a significant reversal could occur.

Merchant Discount and Interchange Fee: Retail Banking earns fee revenue for debit and credit card processing services. We provide these services to merchant businesses including point-of-sale payment acceptance capabilities and customized payment processing built around the merchant's specific requirements. We earn fee revenue as the merchant's customers make purchases.

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. Upon the transfer of control of the property to the buyer, the OREO asset is derecognized and the gain or loss on sale is recorded.

(Continued)

(In thousands, except per share amounts)

NOTE 17 – LEASES

The Bank leases certain branch premises under operating lease agreements. The leases expire on various dates through 2030 and have renewal options for up to five years. The Bank includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. The Bank has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Bank's balance sheet. At December 31, 2022, minimum commitments under these non-cancellable leases with initial or remaining terms of one year or more are as follows:

Year Ending December 31,	
2023	$ 1,681
2024	1,726
2025	1,581
2026	1,271
2027	1,100
Thereafter	1,641
Total undiscounted lease payments	9,000
Less: imputed interest	(790)
Net lease liabilities	$ 8,210

Leases are classified as operating at the lease commencement date. Lease expenses for operating 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.

Rent expense under operating leases was $1,681 and $1,694 for the years ended December 31, 2022 and 2021, respectively.

As the Bank carries no debt and has not participated in the secondary markets to raise new debt, the Bank has elected to use US Treasury yields as a proxy for the incremental implicit rate of its leases. The Bank believes that US Treasury yields are not materially different from its ability to access the market through a fully secured borrowing rate.

Right-of-use assets and lease liabilities by lease type and the associated balance sheet classifications for the years ending December 31, 2022 and 2021 are as follows:

	Balance Sheet Classification	2022	2021
Right-of-use assets:			
Operating lease	Accrued interest receivable and other assets	$ 8,210	$ 7,941
Lease liabilities:			
Operating lease	Accrued interest payable and other liabilities	$ 8,210	$ 7,941