Exchange Bank

February 25, 2022

Dear Shareholders:

Last year, we began our annual shareholder letter acknowledging the significant economic and societal disruptions that were caused by the pandemic. We also described how, despite those challenges, the Bank was still able to post solid operating results in 2020. It is no surprise to share with you that many of those same challenges endured through 2021. In spite of those challenges, we are pleased to report solid operating results for the year. Once again, we achieved those results by our steady focus on our core mission—assisting our customers, especially our commercial customers, during this very difficult time. In doing so, the Bank recorded net income of $36.41 million, an increase of 8.04% over the previous year.

We started 2021 with optimism for a slow but foreseeable return to a more normalized business environment post-COVID. Vaccine distribution had begun, although it was clear that it would take many months to bring production up to the needed levels. From Exchange Bank's perspective, this progress on the fight against the pandemic led us to forecast reasonable core loan growth and the slow but steady shrinkage of our larger balance sheet as surge deposits were put back to work within the local economy. As a reminder, the Bank's deposit balances ended 2020 up $424 million from the prior year as a result of the first round of Paycheck Protection Program (PPP) loans being deposited directly into our business customers' accounts as well as the dramatic increased rate of savings of both our retail and commercial deposit customers.

In early January, a second but smaller and more targeted round of PPP lending was launched. Once again, acknowledging our deep commitment to our business customers, the Bank allocated significant internal resources to reach out and assist them in obtaining this critically needed SBA support. As a result of these efforts, we are very proud to report we were able to help 1,094 of our small business customers receive further assistance of approximately $125 million. This is in addition to the $260 million of PPP loans to 1,780 small business customers in the first round in 2020. At the same time (and as importantly) the Bank began helping our first-round customers navigate their way through the forgiveness process. This was a complicated task and at many times our lenders felt as if they were building the plane while flying it as the process and rules continued to evolve. We are extremely proud of our lending teams. Their work on these PPP loans quite literally saved hundreds of local small businesses, many family-owned, in our community. This massive Exchange Bank effort was, by definition, the work of a community bank.

As the year progressed, the effects of the pandemic evolved but did not truly abate. On the asset side of the balance sheet, the core loan growth we forecasted did not materialize. The competition for the diminished number of market transactions was fierce from both a pricing and credit structure perspective. As well, some of our lending resources remained tasked with the critical work of assisting our PPP customers. From a liability perspective, the slow deposit roll-off, to be driven by the expected increase in economic activity, also did not materialize. In fact, the trends of the previous year repeated themselves. Again, the proceeds of the second round of PPP loans were directed to our customers' deposit accounts, and savings rates remained highly elevated as many businesses deferred major purchases. The result was another substantial year-over-year growth of deposits of 14.42%. A main focus of the Bank in 2022 will be measuring the relative duration of these increased deposits and putting those funds to work efficiently while maintaining a strong liquidity position.

Our 2021 financial results, which we will now discuss in greater depth, were strongly influenced by the factors noted above.

As was previously noted, net income in 2021 increased by 8.04% from the previous year to $36.41 million. The primary drivers of this increase in net income were the increase in non-interest income of $2.11 million and the decrease of non-interest expense of $4.00 million. These two positive impacts to net income were partially offset by a decrease in net interest income of $2.83 million.

For a point of reference, net interest income is the difference between interest income and interest expense. The $2.83 million decrease in net interest income in 2021 was the result of a $4.37 million decrease in interest income only partially offset by a $1.54 million decrease in interest expense. Interest income includes loan fees that are recognized during the period. Even though the Bank earned $8.87 million in PPP loan fees paid by the SBA, the persistent low interest rate environment, the low yield of 1% on the outstanding PPP loans and a lack of core loan growth all contributed to the decrease in interest income. The above-noted low interest rate environment did serve to lower the Bank's interest expense in 2021, but because the rate environment has been low on a relative basis for many years, the Bank already enjoyed a very low cost of funds at the beginning of the year. Therefore, the decline in interest expense had less room to fall and did not pace the decline in interest income.

The Bank's net interest margin (NIM) decreased from 3.46% in 2020 to 2.87% in 2021. The decrease in net interest income, coupled with the increase in lower yielding earning assets on the balance sheet fueled by surge deposits, combined to significantly lower the Bank's NIM. Interest rates are projected to rise in 2022, and that alone should help increase the NIM. But to take advantage of a rising rate environment, the Bank will need to better allocate its earning assets into core loan growth.

Non-interest income was up 9.8% to $23.65 million in 2021, primarily driven by the Bank's highly-respected Trust & Investment Management group. Managing over $1.5 billion of our customers' investments, the Trust & Investment Management group contributed a record $10.48 million in revenue to the Bank's income statement this year. Of note, deposit service charges were down again this year by 12.10% to $3.16 million as high deposit account balances offset fees normally earned on these accounts.

Non-interest expense was down $4.00 million, or 5.82%, in 2021 due primarily to a decrease in salaries and benefits of $3.30 million. While the Bank has worked diligently to create efficiencies and prudently manage our FTE, a tight labor market and the resulting increase in the average number of unfilled openings also contributed to this expense reduction. Subsequent to the FIS conversion in September of 2020, the Bank was also able to realize a $545 thousand reduction in professional fees in 2021, most of which related to non-recurring conversion expenses.

As noted previously, in 2021 the balance sheet grew and realigned in response to uncommon events in the marketplace. Exchange Bank, in alignment with our role as a community bank, sought and secured additional PPP loans for our customers during the second round of funding, and those funds were again deposited into our customers' accounts at the Bank. At the same time, both business and consumer customers continued to increase their rates of savings. With interest rates near historic lows and a concern about the overall health of the economy, there was little incentive for them to move their excess cash balances to other non-bank investments. Deposits ended the year up $401 million, or 14.42%, and the Bank's balance sheet swelled to total assets of $3.54 billion at year-end 2021, a 12.67% increase over 2020. At the same time deposits were increasing, cash was also coming back to the Bank in the form of PPP round one loan forgiveness. With this influx of cash, the Bank grew our high-grade investment portfolio by $467 million and also increased our position in Fed Funds at the Federal Reserve Bank (FRB) by $136.6 million.

Exchange Bank is conservative by nature, and these are extraordinary times. Maintaining a very strong liquidity position is integral to the Bank's ongoing strategy. The position at the FRB is acknowledged as higher than typical, but we believe that some portion of these increased deposits are transitory in a rising interest rate environment. Because there is no reliable model to estimate their duration on our balance sheet, the Bank chose the conservative strategy of holding some portion of those surge deposits in this manner. Further, in a forecasted rising interest rate environment, the Bank would prefer to ladder these funds into the market in other investments, preferably longer-term and higher-yielding loans. From a strategic standpoint, the Bank pays diligent attention to our interest rate risk position with 80.85% of our loans repricing or maturing within a five-year period, and we make every effort to balance strong liquidity against the desire for higher earning assets.

Loan growth has been a challenge, hindered by both low demand and high competition for credit-worthy transactions. That being said, the overall credit-quality and performance of the Bank's loan portfolio is strong. While gross loans decreased from $1.73 billion in 2020 to $1.51 billion in 2021, it is noted that $133 million of that decrease was related to PPP loans that were forgiven as expected during that period. Still, the Bank's core loan portfolio shrank by $84 million in 2021 in large part due to the strategic decision to maintain loan pricing and underwriting discipline during this uncertain time. This strategy led to strong credit quality metrics at year-end; non-accrual loans at 0.28% of gross loans, a classified asset to capital ratio of just 4.56% and recoveries actually exceeding charge-offs. The Bank ended the year with a very strong allowance for loan and lease losses (ALLL) of 2.90% after adding another $2 million to the reserve in the first two quarters of the year as concerns about the economy persisted. When those concerns began to abate, and because of the healthy level of the reserve, the Bank ceased making additional allocations mid-year. This level of reserve will serve the Bank well as we transition to the Current Expected Credit Loss (CECL) model at the end of 2023 and also as we work on disciplined core loan growth in 2022.

At the end of 2021, the Bank's capital ratios comfortably exceeded the minimum regulatory definitions for being "well-capitalized." Management and the Board of Directors continued the strategy of balancing reasonable dividend payments with the desire to grow capital at a moderate pace. The Bank's capital position increased from $304.9 million at the beginning of the year to $319.2 million at December 31st. Tier 1 capital finished the year at 20.23%. Total risk-based capital was 21.50%.

The Bank was again able to pay a $4.80 cash dividend per share to our shareholders in 2021. This dividend payout matches the payout of 2020. As is commonly known, just over 50% of Exchange Bank stock is owned by the separately-controlled Doyle Trust. The Trust distributes the Exchange Bank dividends it receives to the trustees of the Santa Junior College to fund thousands of scholarships at the college each year. In 2021, the total amount of dividends paid by the Bank was $8.23 million, with $4.15 million received by the Doyle Trust for its primary purpose of providing scholarships to "worthy young men and women attending the Santa Rosa Junior College." A significant number of Bank shares are also owned by Exchange Bank retirees and other local investors. We are confident that Frank Doyle would be proud that the Bank was again able to provide a fair rate of return to our investors and our community.

In last year's letter, we described the large technology investments the Bank made in 2019 and 2020. The conversion of our core information technology system from FiServ to FIS, and from an in-house solution to a hosted one, was a herculean effort with initial work starting in 2018. We flipped the switch on the conversion in September of 2020, but a significant amount of that work extended into 2021 as we adapted our business operational practices to the new technology. We have started to realize the promised efficiencies of the new system, and will continue to adapt and evolve our operations to leverage this investment and take advantage of these cutting-edge technology opportunities. One such opportunity is the better utilization of data in our operations and sales efforts. The protection of our customers' privacy will always be a primary mission, but our internal use of data will provide the Bank with the ability to understand our customers better and provide them with access to new or improved products and services to help them achieve their financial goals.

The protection of our customers' privacy begins with a robust cybersecurity posture. We take this responsibility very seriously and employ multiple layers of sophisticated cybersecurity tools to protect the confidentiality, integrity and availability of our customers' data. We constantly monitor the threat environment and increase, adapt and evolve the defensive tools we deploy. Threat awareness is an important part of our cybersecurity program, and we work diligently with our customers to help them raise their cyber IQ.

This cybersecurity focus is critical as we continue to see our electronic delivery channels grow in usage and importance with our customers. Both the capabilities and ease of use of a bank's digital and mobile products have become top factors for customers considering entering new banking relationships or staying in their current relationships. We believe, and our customers confirm, that our digital and mobile banking products rise to these challenges. Our 2019 conversion to the Q2 platform, an industry-recognized platform leader in mobile and digital banking products, has proven highly successful and our customer's utilization of this delivery channel only continues to grow.

As we mentioned last year, our commitment to our customers is to provide them with the products and services to "bank how they want, when they want, and where they want." This pledge remains an important part of our overall strategic plan. While there has been a steady movement of transactions from the branches to the digital and mobile channel, our robust branch network—the largest in Sonoma County—remains a source of pride for the Bank. That being said, we are not blind to the engagement trends of our customers, and we will continue to look at opportunities to make the branch delivery system more efficient. In that regard, last year we made the decision to permanently shutter our Bennet Valley branch. That branch had been temporarily closed for over a year in response to the staffing challenges experienced during the pandemic. When it became clear that our customers were well-served by our Reinking branch located less than two miles away, as well as by our digital delivery channels, we made that difficult decision. We did, however, secure a new location in that market to retain an ATM, and we are considering more technologically advanced integrated teller machines (ITMs) with video capabilities in that location and potentially others.

We'd like to take a moment to again acknowledge the tremendous work of our dedicated team of employees. 2021 was again a very challenging year for our teammates; as proud essential workers, they came to work every day to take care of our customers while working through the same personal challenges that we have all experienced—caring for their families, disruptions in childcare and schooling, and the general pandemic fatigue. Their dedication to this community, the mission of Exchange Bank and our customers cannot be overstated.

Frank Doyle, our co-founder, provided us with both the inspiration and the roadmap to be impactful in our community by his visionary philanthropic act of bequeathing his controlling shares of Exchange Bank to the Doyle Trust in 1948. As is well-known, the dividend payments of those Exchange Bank shares fund the Trust, providing us with the motivation and the means to make a difference in the lives of others. But further than that, his grand philanthropic act reminds us that with success comes responsibility. This is our community, and we work tirelessly to support it as both an organization and as individuals. Sharing our time, talent and treasure, our employees volunteer on boards and committees throughout our market. We are proud to be actively involved in highly impactful community service organizations such as the Redwood Empire Food Bank, Catholic Charities, Hanna Boys Center, Committee on the Shelterless (COTS), Social Advocates for Youth (SAY) and the Luther Burbank Center for the Arts, to name just a very few. We also support these organizations and many, many others with financial donations that totaled over $700 thousand in 2021. In the spirit of Frank Doyle, we believe that this support is our responsibility as a community bank.

It is this responsibility that motivates our employees, but we also acknowledge that the recognition of our efforts by way of local awards and community surveys is always greatly appreciated and a tremendous affirmation of our work. Again in 2021, we received a number of those well-earned honors from our community. For the 16th year in a row, Exchange Bank was named a ***One of the Best Places to Work*** by the North Bay Business Journal and we were again named ***Best Bank*** by the Press Democrat's Best of Sonoma County Reader's Choice Awards. Like last year, these two awards specifically mean a lot to our almost 400 employees as they bravely and tirelessly show up every day as essential workers, serving our customers and our community during very difficult times.

Exchange Bank has made a number of changes at the Board level and within the Executive Management team. Dick Abbey, retired managing partner of the respected local Abbey, Weitzenberg, Warren & Emery law firm, also retired from the Bank after 12 years of valued service as a member of our Board of Directors. Prior to joining the Board, Mr. Abbey was the Bank's lead attorney for more than 25 years. Mr. Abbey provided both wise counsel and steady leadership to the Bank over those many years. His deep connections within Sonoma County helped to further expand Exchange Bank's role as the cornerstone financial institution within the community.

Two local community leaders have recently joined the Bank's Board. Greg Steele was previously the CEO of Nelson Jobs, a professional recruiting and job search company located in Sonoma County. He has also held executive roles at Enphase Energy and Advanced Fibre, both local high-tech companies. He is now retired and is actively involved in a number of community organizations. Eric McHenry, who very recently retired from his role as the chief information officer for the City of Santa Rosa, has also joined the Bank's Board. Mr. McHenry's impressive background began with an engineering degree from the Massachusetts Institute of Technology (MIT) and continued with extended careers at both Hewlett-Packard and Agilent Technologies prior to joining the City of Santa Rosa. Both of these gentlemen bring significant experience in the oversight of technology-based organizations to Exchange Bank. As the Bank continues its strategic objective to expand and enhance our digital capabilities, their insight and vision will provide valuable guidance.

As was long planned, at the beginning of 2021, Gary Hartwick, the Bank's president and CEO, and Greg Jahn, the Bank's chief financial officer both retired. Troy Sanderson, a fourth generation native of Sonoma County with a 30-year career in banking, became Exchange Bank's ninth president and CEO. He was promoted to that position after two years of service as the Bank's chief banking officer. Previously he was the president of a family-owned community bank. In anticipation of Mr. Jahn's retirement, the Bank conducted a nationwide search for his replacement. Shari DeMaris, a highly-experienced chief financial officer of a similar sized bank in Iowa, was selected. To ensure a smooth transition, she joined the Bank in the fourth quarter of 2020. Ms. DeMaris is a licensed CPA with an extensive accounting and auditing background. She oversees the Finance and Risk Management groups. The Bank was excited to recruit Brian Rober to lead the Technical Services group as chief information officer. Mr. Rober came to the Bank from FIS, the Bank's core system provider and largest vender, where he oversaw the managed IT services for over 150 community banks. His significant experience within the FIS environment has already helped the Bank leverage our substantial investment in this cutting-edge technology. Additionally, the Bank promoted Mary Leonard-Wilson to the role of chief credit officer. Ms. Leonard-Wilson joined the Bank in 2020 as the SVP, senior credit officer, and took over the new position in May of 2021. She brings a wealth of credit knowledge to the role with over 20 years of prior chief credit officer experience at two other Bay Area community banks.

Exchange Bank continues to demonstrate our commitment to hire and retain the very best talent available – from the board room and executive team and throughout the entire organization, importantly including our dedicated customer-serving employees who are rightfully called essential workers.

2021 was a challenging but ultimately financially successful year for Exchange Bank and we are proud of how we adapted to and overcame those challenges. We began 2021 with the hope and belief that the sun was just about to rise on the horizon and a new post-COVID day was awakening. When that didn't happen exactly as we had anticipated, we did what this cornerstone financial institution has done for 131 years prior, through earthquakes, epidemics, the Great Depression, floods and fires; we found ways to rise to the challenge and accomplish our mission, to serve and support our customers and our community. With strong asset quality and more than adequate capital and liquidity, and driven by a dedicated team of financial professionals focused on our mission, Exchange Bank stands ready to do it again.

We thank you, our shareholders, for your support of Exchange Bank in 2021. We regret that again this year, due to the pandemic, we will not be able to gather in person for our annual meeting. Like last year, we will hold the meeting in a virtual format. The instructions to join the meeting and vote your shares are included in this package. 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 2022, and the expectation of meeting again in person next year.

Sincerely,

William R. Schrader
Chairman of the Board

Troy J. Sanderson
President and Chief Executive Officer

Exchange Bank

NOTICE OF ANNUAL SHAREHOLDERS MEETING
TO BE HELD MARCH 25, 2022

February 25, 2022

Dear Shareholder:

Due to ongoing health and safety concerns surrounding the coronavirus, this year's annual meeting of the shareholders of Exchange Bank will be held virtually via live webcast at **https://meetnow.global/MGKDGJY** on **Friday, March 25, 2022** at **10:00 a.m. (PDT)**. You will not be able to attend the Annual Meeting in person. The meeting will be much briefer than normal and will be limited to providing legally required information and the election of a Board of Directors. Upon conclusion of the meeting, our President and CEO Troy Sanderson and our Executive Vice President and Chief Financial Officer Shari DeMaris will present their thoughts as to the condition and outlook for our Bank.

To access the virtual meeting, you will need the 15-digit control number that is printed in the shaded bar on your proxy card.

If you hold your shares through an intermediary, such as a bank or broker, you must register in advance to attend the Annual Meeting virtually on the Internet. To register to attend the online meeting you must submit proof of your proxy power (legal proxy) reflecting your Exchange Bank holdings along with your name and email address to Computershare. **Requests for registration must be labeled as "Legal Proxy" and be received no later than 5:00 p.m., (EDT), on Monday, March 22, 2022**. You will receive a confirmation email from Computershare of your registration.

Requests for registration should be directed to Computershare at the following address:

By email

Forward the email from your broker, or attach an image of your legal proxy, to legalproxy@computershare.com.

By mail

Computershare
Exchange Bank Legal Proxy
P.O. Box 43001
Providence, RI 02940-3001

The virtual meeting platform is fully supported across browsers (MS Edge, Firefox, Chrome and Safari) and devices (desktops, laptops, tablets and cell phones) running the most up-to-date version of applicable software and plugins. Note: Internet Explorer is not a supported browser. If you have difficulty accessing the online meeting, please call 1-888-724-2416.

At the meeting, we will attend to formal matters as follows:

1. To elect the following ten nominees to serve as directors for the ensuing year:

- James M. Ryan
- Marlene K. Soiland
- William R. Schrader
- Bruce E. DeCrona
- Steven G. Dutton
- Gary T. Hartwick
- Deborah A. Meekins
- Gregory S. Steele
- Troy J. Sanderson
- Eric D. McHenry

2. To transact such other business as may properly come before the meeting.

If you were a shareholder of record as of the close of business on February 18, 2022 and have your control number, you may vote during the Annual Meeting by following the instructions available on the meeting website. It is important that your shares be represented at the meeting or by proxy. The giving of such proxy will not affect your right to revoke such proxy or to vote in person should you later decide to attend the meeting. For this reason, please complete, sign, date and return the proxy card as promptly as possible in the postage prepaid envelope whether or not you plan to attend the meeting.

The following information is included in accordance with the Bank's bylaws:

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 age and 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 (7^{th}) 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; 2) 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; 3) 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; 4) 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; 5) 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; 6) 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; 7) 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; 8) 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.

If you have questions about the operations of the Bank, please direct them in writing to Marlene Soiland, Corporate Secretary, P.O. Box 403, Santa Rosa, CA, 95402 before the meeting. You may also contact the Chairman of the Board directly at Bill.Schrader@exchangebank.com. Shareholder questions will be answered as completely and as promptly as possible.

As required by FDIC regulations, the Bank's annual disclosure statement will be sent to any shareholder upon request. The first copy of the annual disclosure statement will be provided to a shareholder without charge. If you wish a copy of this information, please send a written request to my attention at the address above or you may call (707) 524-3121.

By Order of the Board of Directors,

Marlene Soiland

Marlene K. Soiland
Corporate Secretary

MKS/ks

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 2021 such transactions did not involve more than the normal risk of collectability or present other unfavorable features. Loans to Directors and Executive Officers of the Bank are subject to limitations prescribed by the Financial Code of the State of California as well as applicable federal law and regulations.

In addition, these transactions are disclosed as required by law.

EXCHANGE BANK
BOARD OF DIRECTORS

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 Audit, 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 and involved in the Russian River Valley Winegrowers Foundation, Sonoma County Farm Trails, and is a member 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 on the board's Technology Committee. He recently retired from the City of Santa Rosa 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, Technology, and Trust Committees. Before retiring, Ms. Meekins served as the CEO of Sonoma National Bank, executive vice president and retail banking director, chief production officer and California market president of Sterling Savings Bank, and most recently as president and CEO of Poppy Bank. 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 Western Bankers.

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 has 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 in 2021 as President and Chief Executive Officer. 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 president and chief credit officer of Bank of Rio Vista and has 15 years of experience leading credit teams at community banks. 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 Committee on the Shelterless (COTS) in Petaluma. 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 | *Chairman of the Board, Exchange Bank*

Mr. Schrader was appointed to the board in 2008 as appointed President. He joined Exchange Bank in 1978 and has served as senior loan officer and chief operating officer, and was president and chief executive officer when he retired from the Bank in 2014. 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. His community involvement includes past 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).

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 currently serves as president of the Sonoma County Alliance and has 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 Technology Committee. He also serves on the board's Audit Committee and Governance/Nominating Committee. Mr. Steele served as the CEO of Nelson Staffing Sonoma, COO of Advanced Fibre Communications, and senior vice president of operations and engineering at Enphase Energy in Petaluma. 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 on the board as president-elect 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.

EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

FINANCIAL STATEMENTS
December 31, 2021 and 2020

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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, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Exchange Bank and Subsidiaries as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2021, 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 15, 2022 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.

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.

(Continued)

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 15, 2022

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020
(In thousands, except share and par value amounts)

	2021	2020
ASSETS		
Cash and due from banks	$ 472,728	$ 336,170
Short-term investments	241	241
Total cash and cash equivalents	472,969	336,411
Interest-bearing deposits in other financial institutions	17,000	38,000
Available-for-sale investment securities	1,407,247	919,705
Loans and leases	1,510,107	1,727,689
Less allowance for loan and lease losses	(43,847)	(41,668)
Net loans and leases	1,466,260	1,686,021
Federal Home Loan Bank stock	14,465	13,483
Bank premises and equipment, net	18,717	20,498
Bank owned life insurance	64,453	52,932
Other real estate owned	-	40
Accrued interest receivable and other assets	75,640	72,007
Total assets	$ 3,536,751	$ 3,139,097
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 1,232,666	$ 1,118,093
Interest bearing	1,946,452	1,660,480
Total deposits	3,179,118	2,778,573
Federal Home Loan Bank Advance	-	5,000
Accrued interest payable and other liabilities	38,431	50,606
Total liabilities	3,217,549	2,834,179
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	276,294	248,113
Accumulated other comprehensive income (loss), net of taxes	(7,404)	6,493
Total stockholders' equity	319,202	304,918
Total liabilities and stockholders' equity	$ 3,536,751	$ 3,139,097

See accompanying notes to consolidated financial statements

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2021 and 2020
(In thousands, except per share amounts)

	2021	2020
Interest income:		
Interest and fees on loans and leases	$ 77,880	$ 82,339
Interest on investment securities:		
Taxable	15,794	15,560
Exempt from Federal income taxes	1,632	1,777
Total interest income	95,306	99,676
Interest expense:		
Interest on deposits	1,757	3,297
Total interest expense	1,757	3,297
Net interest income before provision for loan and lease losses	93,549	96,379
Provision for loan and lease losses	2,000	1,800
Net interest income after provision for loan and lease losses	91,549	94,579
Non-interest income:		
Service charges and fees	3,159	3,594
Trust income	10,482	8,951
Merchant discount and interchange fees	3,904	4,116
Income from bank owned life insurance	1,902	1,764
Other income	4,198	3,110
Total non-interest income	23,645	21,535
Non-interest expense:		
Salaries and employee benefits	35,622	38,922
Occupancy and equipment	7,916	7,838
Professional fees	6,536	7,081
FDIC assessments	711	275
Other expenses	13,861	14,525
Total non-interest expense	64,646	68,641
Income before provision for income taxes	50,548	47,473
Provision for income taxes	14,138	13,774
Net income	$ 36,410	$ 33,699
Basic and diluted earnings per common share	$ 21.24	$ 19.66

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020
(In thousands)

	2021	2020
Net Income	$ 36,410	$ 33,699
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gains (losses) arising during the period	(24,889)	12,423
Tax effect	7,358	(3,673)
Changes in unrealized gain (loss) on available-for-sale investment securities, net of tax	(17,531)	8,750
Defined benefit pension plans:		
Net gains (losses) arising during the period	5,029	(197)
Tax effect	(1,487)	58
Changes in defined benefit pension plans, net of tax	3,542	(139)
Change in deferred compensation trust liabilities	131	33
Tax effect	(39)	(9)
Changes in deferred compensation trust, net of tax	92	24
Other comprehensive income (loss)	(13,897)	8,635
Total Comprehensive Income	$ 22,513	$ 42,334

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2021 and 2020
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Stockholders' Equity
Balance, January 1, 2020	$ 4,286	$ 46,026	$ 222,645	$ (2,142)	$ 270,815
Net Income	-	-	33,699	-	33,699
Other comprehensive income	-	-	-	8,635	8,635
Cash Dividends ($4.80 per share)	-	-	(8,231)	-	(8,231)
Balance, December 31, 2020	$ 4,286	$ 46,026	$ 248,113	$ 6,493	$ 304,918
Net Income	-	-	36,410	-	36,410
Other comprehensive loss	-	-	-	(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**

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(In thousands)

	2021	2020
Cash flows from operating activities:		
Net Income	$ 36,410	$ 33,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,516	2,344
Provision for loan losses	2,000	1,800
Deferred income tax expense (benefit)	(7)	(131)
Gain on sale of guaranteed portion of SBA loans	(869)	(821)
Accretion of discounts and amortization of premiums on investment securities	3,859	4,421
Net change in deferred loan origination fees	(1,987)	3,776
Net loans originated with intent to sell and sold	(1,393)	(3,176)
Increase in bank owned life insurance, net of expenses	(1,049)	(1,266)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	7,114	(9,375)
Accrued interest payable and other liabilities	(12,175)	2,240
Net cash provided by operating activities	34,419	33,511
Cash flows from investing activities:		
Decrease in Interest-bearing deposits in other financial institutions	21,000	22,000
Proceeds from maturities of investment securities	290,491	558,440
Purchase of investment securities	(807,852)	(752,089)
Purchase of Federal Home Loan Bank (FHLB) stock	(982)	-
Purchase and redemption of bank owned life insurance	(10,128)	-
Net decrease (increase) in loans and leases	221,667	(146,238)
Proceeds from sale of other real estate owned	40	-
Proceeds from sale of land	680	-
Purchase of bank premises and equipment	(93)	(4,507)
Net cash (used in) investing activities	(285,177)	(322,394)
Cash flows from financing activities:		
Net increase in demand, interest bearing and savings deposits	414,602	418,437
Net (decrease) increase in time deposits	(14,057)	5,132
Net (decrease) increase in short-term FHLB advances	(5,000)	5,000
Cash paid for dividends	(8,229)	(8,229)
Net cash provided by financing activities	387,316	420,340
Increase in cash and cash equivalents	136,558	131,457
Cash and cash equivalents, beginning of year	336,411	204,955
Cash and cash equivalents, end of year	$ 472,969	$ 336,411
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 1,840	$ 4,196
Income taxes	$ 13,400	$ 12,000

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, 2021 and 2020, 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, 2021 and 2020 the balance of loans originated and unsold under the SBA program totaled $7,474 and $5,433, 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, 2021 and 2020.

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 $70,048 and $80,785 were being serviced for others at December 31, 2021 and 2020, respectively. Servicing assets at December 31, 2021 and 2020 and servicing fee income net of servicing rights amortization during the years ended December 31, 2021 and 2020 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 will not be terminating the plan at this time. 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, 2021 and 2020 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 2021 and 2020, 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 $1,163 and $1,134 for the years ended December 31, 2021 and 2020, 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.

The COVID-19 pandemic represents an unprecedented challenge to the global economy in general and the financial services sector in particular. However, there is still significant uncertainty regarding the overall length of the pandemic and the aggregate impact that it will have on global and regional economies, including uncertainties regarding the potential positive effects of governmental actions taken in response to the pandemic during 2020 and 2021. With so much uncertainty, it is impossible for the Bank to accurately predict the impact the pandemic will have on the Bank’s primary markets and the overall extent to which it will affect the Bank’s financial condition and results of operations into 2022.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: The Bank reviewed all events occurring from December 31, 2021 through February 15, 2022, 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 fiscal years beginning after December 15, 2022, and including interim periods within those fiscal years.

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

(Continued)

(In thousands, except per share amounts)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2021 and 2020:

Recurring Basis

	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	$ -

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

	2020			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 297,184	$ -	$ 297,184	$ -
Obligations of states and political subdivisions	175,088	-	175,088	-
Government sponsored entities residential mortgage-backed securities	401,320	-	401,320	-
U.S. Treasuries	42,106	-	42,106	-
Other securities	4,007	-	4,007	-
Total assets measured at fair value	$ 919,705	$ -	$ 919,705	$ -

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.

	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	$ -	$ -	$ 3,292

	2020			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate – commercial	$ 1,389	$ -	$ -	$ 1,389
Commercial	882	-	-	882
Lease financing	6	-	-	6
Consumer	1,408	-	-	1,408
Total assets measured at fair value on a non-recurring basis	$ 3,685	$ -	$ -	$ 3,685

(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 $0 and $0 represent impairment charges recognized during the years ended December 31, 2021 and 2020, 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.

(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% 11.05%
		Management estimates	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	
Leasing	$ 173	Management estimate	a. Personal property collateral is discounted based on management's assessment of loss given default	.48% to 75% 30.13%
		Management estimate	b. Management adjustments based on Net present value of cash flows.	
Consumer	$ 1,659	Liquidation Value	a. Adjustments can range up to 25% of liquidation costs plus 15% for related expenses.	.28% to 40% 3.75%
		Management estimates	b. Personal property collateral is discounted based on management's assessment of loss given	

(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, 2020:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 1,389	Sales Comparison	a. Appraiser adjustments on sales comparable data can range 5% to 10%	0.5% to 0.75% 0.75%
		Management estimates	b. Management adjustments for depreciation in values depending on property types	
Commercial	$ 882	Sales Comparison	a. Appraiser adjustments on sales comparable data can range up to 18%	0.93% to 18% 6.08%
		Management estimates	b. Management adjustments for depreciation in values depending on property types	
			c. Selling and holding cost	
			d. Personal property collateral or unsecured loans are discounted based on management's estimate of loss given default	
Leasing	$ 6	Management estimate	a. Personal property collateral is discounted based on management's assessment of probability of default	15.0% to 50% 48%
Consumer	$ 1,408	Sales Comparison	a. Appraiser adjustments on sales comparable data can range up to 10%	2.9% to 19.7% 4.28%
		Management estimates	b. Personal property collateral is discounted based on management's assessment of probability of default	

(Continued)

(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, 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
Accrued interest payable	518	489	29	-	518

December 31, 2020	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 336,441	$ 336,441	$ -	$ -	$ 336,441
Interest-bearing deposits In banks	38,000	38,000	-	-	38,000
Available-for-sale securities	919,705	-	919,705	-	919,705
FHLB stock	13,483	N/A	N/A	N/A	N/A
Loans and leases, net	1,686,021	-	-	1,741,232	1,741,232
Accrued interest receivable	13,752	5,535	169	8,048	13,752
Financial liabilities:					
Deposits	$ 2,778,573	$ 2,587,180	$ 191,313	$ -	$ 2,778,493
FHLB advance	5,000	5,000	-	-	5,000
Accrued interest payable	602	530	72	-	602

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.

(Continued)

(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, 2021 and 2020 consisted of the following:

	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

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 296,080	$ 1,782	$ (678)	$ 297,184
Obligations of states and political subdivisions	168,429	6,686	(27)	175,088
Government sponsored entities residential mortgage-backed securities	392,047	9,273	-	401,320
U.S. Treasuries	40,742	1,364	-	42,106
Other securities	4,000	19	(12)	4,007
	$ 901,298	$ 19,124	$ (717)	$ 919,705

Net unrealized gains (losses) on available-for-sale investment securities totaling $(6,482) and $18,407 were recorded, net of $4,566 and $(5,442) in deferred tax assets (liabilities), as accumulated other comprehensive income within stockholders' equity at December 31, 2021 and 2020, respectively. There were no sales of available-for-sale investments during the years ended December 31, 2021 and 2020. There were no transfers of available-for-sale investment securities for the years ended December 31, 2021 and 2020.

(Continued)

(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, 2021 and 2020 are summarized and classified according to the duration of the loss period as follows:

	2021		2020	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Less than twelve months:				
U.S. Government agencies	$ 457,290	$ (7,307)	$ 136,875	$ (678)
Obligations of states and political subdivisions	80,245	(1,283)	1,180	(27)
Government guaranteed mortgage backed securities	419,336	(4,538)	152	-
U.S. Treasury	-	-	-	-
Other securities	-	-	-	-
Greater than twelve months:				
U.S. Government agencies	$ 79,172	$ (2,483)	$ -	$ -
Obligations of states and political subdivisions	1,145	(30)	-	-
Government guaranteed mortgage backed securities	-	-	-	-
U.S. Treasury	-	-	-	-
Other securities	-	-	1,988	(12)
	$ 1,037,188	$ (15,641)	$ 140,195	$ (717)

U.S. Treasury and U.S. Government Agencies: The Bank holds 261 securities issued by U.S. Treasury and U.S Government Agencies, of which 177 have been in a continuous loss position for less than 12 months and none 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, 2021.

Obligations of States and Political Subdivisions: The Bank holds 361 securities issued by state and political subdivisions, of which 136 have been in a continuous loss position for less than 12 months and none 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, 2021.

(In thousands, except per share amounts)

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

Government Guaranteed Mortgage Backed Securities: The Bank holds 236 Government Guaranteed Mortgage Backed Securities, of which 76 have been in a continuous loss position for less than 12 months and none 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, 2021.

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 2 corporate bonds, of which none have been in a continuous loss for less than 12 months and one which has 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, 2021.

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2021, 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	$ 39,202	$ 39,528
After one year through five years	255,440	255,055
After five years through ten years	447,450	440,854
After ten years	90,058	90,529
	832,150	825,966
Investment securities not due at a single maturity date:		
Government sponsored entities mortgage-backed securities	581,579	581,281
	$ 1,413,729	$ 1,407,247

The only significant concentration of investment securities (greater than 10% of stockholders' equity) in any individual security issuer at December 31, 2021 is certain U.S. Government sponsored entities mortgage-backed securities such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation and certain U.S. Government agencies such as Federal Home Loan Bank.

Investment securities with amortized costs of $14,274 and $21,075 and fair values of $14,164 and $21,725 as of December 31, 2021 and 2020, respectively, were pledged to secure public and trust deposits, FHLB borrowing arrangements (see Note 8) and for other purposes required or permitted by law.

(Continued)

(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 $(271) in 2021 and $(3,776) in 2020 and consist of the following at December 31:

	2021	2020
Real estate – commercial	$ 757,760	$ 771,745
Real estate – construction	81,986	80,549
Commercial	227,343	402,593
Lease financing	30,383	43,160
Consumer	412,635	429,642
Total	1,510,107	1,727,689
Less: Allowance for loan and lease losses	(43,847)	(41,668)
	$ 1,466,260	$ 1,686,021

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, 2021 and 2020, respectively these loans have a balance of $58,185 and $191,400 and are recorded with commercial loans above. The Bank has $2,312 and $5,140 of deferred fees related to the PPP loans as of December 31, 2021 and 2020. During the year-ended December 31, 2021 and 2020, the Bank recognized $8,868 and $4,250 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:

	2021	2020
Future lease payments receivable	$ 32,502	$ 46,784
Residual interests	-	96
Deferred broker costs	526	897
Unearned income	(2,645)	(4,617)
Net lease financing receivable	$ 30,383	$ 43,160

Future lease payments receivable are as follows:

Year Ending December 31,	
2022	$ 2,449
2023	7,449
2024	8,973
2025	8,167
2026	5,276
Thereafter	188
	$ 32,502

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

(Continued)

(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, 2021 and 2020 was as follows:

	2021	2020
Balance, beginning of year	$ 41,668	$ 39,907
Provision for loan and lease losses	2,000	1,800
Loans charged-off	(580)	(888)
Recoveries	759	849
Balance, end of year	$ 43,847	$ 41,668

The following tables show the activity of the allowance for loan and lease losses for the year ended December 31, 2021 and 2020 by portfolio segment, and the allocation of the allowance for loan and lease losses at December 31, 2021 and 2020 by portfolio segment and by impairment methodology:

	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

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2020					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance	$ 15,806	$ 10,345	$ 11,731	$ 291	$ 1,734	$ 39,907
Provision for loan and lease losses	2,311	(3,017)	(2,030)	742	3,794	1,800
Loans charged-off	-	-	(314)	(228)	(346)	(888)
Recoveries	363	-	94	285	107	849
Ending balance allocated to portfolio segments	$ 18,480	$ 7,328	$ 9,481	$ 1,090	$ 5,289	$ 41,668
Ending balance: individually evaluated for impairment	$ 153	$ -	$ 395	$ 73	$ 96	$ 717
Ending balance: collectively evaluated for impairment	$ 18,327	$ 7,328	$ 9,086	$ 1,017	$ 5,193	$ 40,951
Loans						
Ending balance	$ 771,745	$ 80,549	$ 402,593	$ 43,160	$ 429,642	$1,727,689
Ending balance: individually evaluated for impairment	$ 4,146	$ -	$ 2,354	$ 113	$ 1,980	$ 8,593
Ending balance: collectively evaluated for impairment	$ 767,599	$ 80,549	$ 400,239	$ 43,047	$ 427,662	$1,719,096

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2021 and 2020:

	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

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	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

	December 31, 2020 Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Total
Grade:					
Pass	$ 755,960	$ 80,549	$ 384,985	$ 42,739	$ 1,264,233
Special Mention	12,069	-	4,627	206	16,902
Substandard	3,716	-	12,981	215	16,912
Total	$ 771,745	$ 80,549	$ 402,593	$ 43,160	$ 1,298,047

	December 31, 2020 Consumer Credit Exposure Credit Risk Profile Based on Payment Activity	
	Consumer	Total
Grade:		
Performing	$ 425,115	$ 425,115
Non-performing	4,527	4,527
Total	$ 429,642	$ 429,642

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2021 and 2020:

	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

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2020					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ 1,599	$ -	$ 1,391	$ 2,990	$ 765,765	$ 771,745
Real estate – construction	-	-	-	-	80,549	80,549
Commercial	400	19	824	1,243	400,107	402,593
Lease financing	622	6	114	742	41,676	43,160
Consumer	3,433	381	1,511	5,325	418,992	429,642
Total	$ 6,054	$ 406	$ 3,840	$ 10,300	$ 1,707,089	$ 1,727,689

The following tables show information related to impaired loans at and for the years ended December 31, 2021 and 2020:

	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

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

	December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate – commercial	$ 2,604	$ 2,635	$ -	$ 2,658	$ 87
Commercial	$ 1,078	$ 1,128	$ -	$ 1,170	$ 19
Lease financing	$ 34	$ 34	$ -	$ 17	$ -
Consumer	$ 476	$ 492	$ -	$ 487	$ -
With an allowance recorded:					
Real estate – commercial	$ 1,542	$ 1,542	$ 153	$ 1,566	$ 81
Commercial	$ 1,276	$ 1,875	$ 395	$ 1,480	$ 30
Lease financing	$ 79	$ 79	$ 73	$ 72	$ -
Consumer	$ 1,504	$ 1,701	$ 96	$ 1,557	$ 28
Total:					
Real estate – commercial	$ 4,146	$ 4,177	$ 153	$ 4,224	$ 168
Commercial	$ 2,354	$ 3,003	$ 395	$ 2,650	$ 49
Lease financing	$ 113	$ 113	$ 73	$ 89	$ -
Consumer	$ 1,980	$ 2,193	$ 96	$ 2,044	$ 28

Non-accrual loans totaled $4,269 and $3,840 at December 31, 2021 and 2020, respectively. Accruing loans that were past due 90 days or more totaled $271 at December 31, 2021, as compared to $406 at December 31, 2020.

Included in the impaired loans above are 24 loans in the amount of $4,977 and 26 loans in the amount of $5,633 that were considered to be troubled debt restructurings at December 31, 2021 and December 31, 2020, respectively.

For the years ended December 31, 2021 and 2020, the average recorded investment in impaired loans was $8,895 and $9,008, respectively. The Bank had $227 of specific allowance for loan and lease losses on impaired loans with a recorded investment of $7,780 at December 31, 2021 as compared to $717 of specific allowance for loan and lease losses on impaired loans with a recorded investment of $8,593 at December 31, 2020. Interest income on a cash basis was not significant. The impact of interest on non-accrual loans reflects a net loss of $230 for the year ended December 31, 2021, compared with the net loss of $396 for the year ended December 31, 2020.

Salaries and employee benefits totaling $2,572 and $3,004 have been deferred as loan and lease origination costs for the years ended December 31, 2021 and 2020, respectively.

The Bank has allocated $227 and $717 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020. The Bank has no commitment to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings, as of December 31, 2021.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

During the periods ending December 31, 2021 and 2020, 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, 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:		
Consumer	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 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, 2020:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	1	$ 329	$ 329
Real estate – construction	-	-	-
Commercial	1	99	24
Lease financing	-	36	34
Consumer	2	16	15
Total	5	$ 480	$ 402

The troubled debt restructurings described above increased the allowance for loan losses by $215 and resulted in $0 in charge offs during the period ended December 31, 2020.

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, 2020:

	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real Estate - Commercial	1	329
Total	1	$ 329

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. This evaluation is performed under the Bank's internal underwriting policy. Section 4013 of the CARES Act, “Temporary Relief From Troubled Debt Restructurings,” allows financial institutions the option to temporarily suspend certain requirements under GAAP related to TDRs for a limited period of time during the COVID-19 pandemic. In March 2020, various regulatory agencies, including the FRB and the FDIC, issued an interagency statement, effective immediately, on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not to be considered TDRs. This includes short-term (e.g., six months) modifications, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. As of December 31, 2021, and 2020 respectively, the bank has 6 and 5 loans remained on deferment with a balance of $211 and $2,077.

(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, 2021 and 2020, the Bank owned 144,653 and 134,830 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:

	2021	2020
Land	$ 3,462	$ 3,462
Buildings	31,569	31,376
Leasehold improvements	6,356	6,614
Equipment	20,784	20,685
Construction in progress	153	29
	62,324	62,166
Less: accumulated depreciation and amortization	(43,607)	(41,668)
	$ 18,717	$ 20,498

Depreciation and amortization expense were $2,516 and $2,344 for the years ended December 31, 2021 and 2020, respectively.

NOTE 7 – INTEREST-BEARING DEPOSITS

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

	2021	2020
Savings	$ 706,719	$ 593,578
Money market	420,451	326,327
NOW accounts	642,026	549,262
Time, $250,000 or more	56,533	65,387
Other time	120,723	125,926
	$ 1,946,452	$ 1,660,480

The Bank's other time deposits included brokered deposits which totaled $4,048 or 0.1% and $1,492 or 0.1% of total deposits, respectively, at December 31, 2021 and 2020. 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, 2021 and 2020.

(Continued)

(In thousands, except per share amounts)

NOTE 7 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits at December 31, 2021 are as follows:

Year Ending December 31,	
2022	$ 143,198
2023	25,618
2024	3,524
2025	3,567
2026	1,349
	$ 177,256

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, 2021, the Bank has pledged investment securities with a carrying value of $45,755 and loans with a carrying value of $926,400 to secure this borrowing arrangement. There were zero and $5,000 outstanding advances from the Federal Home Loan Bank of San Francisco at December 31, 2021 and 2020 respectively.

Lines of Credit: The Bank has an unsecured line of credit of $50,000 and $5,000 with its correspondent bank, Pacific Coast Bankers Bank as of December 31, 2021 and 2020 and a $10,000 unsecured line of credit with its correspondent bank, Wells Fargo as of December 31, 2021.

NOTE 9 – INCOME TAXES

The expense (benefit) from income taxes for the years ended December 31, 2021 and 2020 consisted of the following:

	Federal	State	Total
2021			
Current	$ 8,933	$ 5,212	$ 14,145
Deferred	(129)	122	(7)
Provision for income taxes	$ 8,804	$ 5,334	$ 14,138
2020			
Current	$ 8,594	$ 5,311	$ 13,905
Deferred	(59)	(72)	(131)
Provision for income taxes	$ 8,535	$ 5,239	$ 13,774

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) are comprised of the following at December 31, 2021 and 2020:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 12,917	$ 12,257
Deferred compensation	4,987	5,273
Postretirement benefits	1,641	1,414
Restructuring reserve	46	148
Nonaccrual interest	230	221
State taxes	1,080	1,054
Deferred gain	340	402
Bank premises and equipment	445	88
Amortization of trust assets	115	96
Lease liability	2,348	2,473
Unrealized losses on available for sale investment securities	1,916	-
Other	304	221
Total deferred tax assets	26,369	23,647
Deferred tax liabilities:		
Deferred loan costs	(803)	(894)
Unrealized gains on available-for-sale investment securities	-	(5,442)
Prepaid expenses	(136)	(190)
Pension expenses	(7,761)	(5,085)
FHLB stock dividends	(272)	(272)
Right of Use asset	(2,348)	(2,473)
Other	(267)	(348)
Total deferred tax liabilities	(11,587)	(14,704)
Net deferred tax assets	$ 14,782	$ 8,943

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,	
	2021	2020
Federal income tax expense, at statutory rate	21.0%	21.0%
State franchise tax, net of Federal tax effect	8.3	8.7
Tax-exempt interest on obligations of states and political subdivisions	(.7)	(.8)
Cash surrender value of life insurance	(.8)	(.8)
Tax credits	(.1)	(.3)
Other	.3	1.1
Effective tax rate	28.0%	29.0%

(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 2018. The Bank is no longer subject to California income tax examinations by tax authorities for years before 2017.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2021 and 2020, 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 2021:

Balance, January 1, 2020	$ 14,146
Disbursements	6,497
Amounts repaid	(6,953)
Change in relationship	(2,311)
Balance, December 31, 2021	$ 11,379
Undisbursed commitments to related parties, December 31, 2021	$ 5,380

(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, 2021 and 2020:

	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)

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2020				
Beginning Balance	$ 4,215	$ (6,654)	$ 297	$ (2,142)
Amounts reclassified from accumulated other comprehensive income	-	24	-	24
Net current period other comprehensive income (loss)	8,750	(163)	24	8,611
Ending balance	$ 12,965	$ (6,793)	$ 321	$ 6,493

(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, 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
OTTI	$ -	Other expense
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

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2020:

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
OTTI	$ -	Other expense
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	33	Other expense
	(9)	Provision for income taxes
	$ 24	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.

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 53,340	$ 50,850
Service cost	-	-
Interest cost	1,388	1,682
Benefits paid	(2,921)	(3,106)
Actuarial (gain) loss	(2,332)	3,914
Benefit obligation at end of year	$ 49,475	$ 53,340
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 70,542	$ 65,309
Employer contribution	-	-
Benefits and expenses paid	(2,921)	(3,106)
Actual return on plan assets	8,106	8,339
Fair value of plan assets at end of year	$ 75,727	$ 70,542
Funded status at end of year	$ 26,252	$ 17,202

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

	2021	2020
Net actuarial loss	$ 1,455	$ 7,912
Prior service cost (credit)	-	-
	$ 1,455	$ 7,912

The accumulated benefit obligation was $49,475 and $53,340 at December 31, 2021 and 2020. The Bank does not expect to contribute to the Plan in 2022.

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2021 and 2020.

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	$ -	$ -

2020	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents	$ 936	$ 936	$ -	$ -
Equity securities:				
U.S. large-cap (a)	33,190	33,190	-	-
U.S. small-cap (b)	4,267	4,267	-	-
International large-cap (c)	8,472	8,472	-	-
Fixed income securities:				
U.S. corporate bond funds (e)	6,275	6,275	-	-
U.S. Total Bond Market fund (f)	17,402	17,402	-	-
Total	$ 70,542	$ 70,542	$ -	$ -

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

(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.

Also 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%	5.75%
Fixed income	25%	35%	45%	1.00%
Cash and equivalents	0%	0%	5%	0%

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

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

	2021	2020
Asset category:		
Equity	51%	65%
Fixed income	48%	34%
Other	1%	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 2021 and 2020 net periodic benefit cost are as follows:

	2021	2020
Service cost	$ -	$ -
Interest cost	1,388	1,682
Expected return on plan assets	(3,986)	(4,005)
Amortization of unrecognized prior service cost	-	-
Recognized prior service cost due to curtailment	-	-
Amortization of unrecognized actuarial loss	5	63
Total net periodic cost	$ (2,593)	$ (2,260)
Net (gain) loss, including curtailment	$ (6,452)	$ (420)
Prior service cost	-	-
Amortization of prior service cost	-	-
Amortization of net gain (loss)	(5)	(63)
Total recognized in other comprehensive income	(6,457)	(483)
Total recognized in net periodic benefit cost and other comprehensive income	$ (9,050)	$ (2,743)

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 as of December 31, 2021.

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

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

	2021	2020
Discount rate	3.00%	2.70%
Rate of compensation increase	N/A	N/A

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

	2021	2020
Discount rate	3.00%	3.40%
Rate of compensation increase	N/A	N/A
Expected return of plan assets	5.75%	6.25%

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
2022	$ 2,522
2023	$ 2,608
2024	$ 2,678
2025	$ 2,756
2026	$ 2,833
2027 through 2031	$ 14,455

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN

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

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,565	$ 5,245
Service cost	(753)	10
Plan Amendment	844	-
Interest cost	120	171
Benefits paid	(365)	(343)
Plan participant contribution	68	90
Actuarial (gain) loss	559	392
Benefit obligation at end of year	$ 6,038	$ 5,565
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 4,151	$ 3,674
Other payments	(781)	(19)
Plan participant contribution	68	90
Benefits paid	(365)	(343)
Employer contribution	2,860	1,000
Actual return on plan assets	(42)	(251)
Fair value of plan assets at end of year	$ 5,891	$ 4,151
Plan assets less benefit obligation at end of year	$ (147)	$ (1,414)

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

	2021	2020
Net actuarial loss	$ 2,325	$ 1,732
Prior service cost	835	-
	$ 3,160	$ 1,732

The accumulated benefit obligation was $6,038 and $5,565 at December 31, 2021 and 2020. The Bank does not expect to contribute to the Plan in 2022.

	2021	2020
Components of net periodic benefit cost:		
Service cost	$ 27	$ 28
Interest cost	120	171
Expected return on plan assets	(63)	(66)
Loss (gain)	72	30
Amortization of unrecognized prior service cost	8	-
Total net periodic benefit cost	$ 164	$ 163

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

	2021	2020
Net loss (gain)	$ 664	$ 710
Amortization of net (gain) loss	(72)	(30)
Prior Service costs	844	-
Amortization of prior service cost	(8)	-
Total recognized in other comprehensive income	1,428	680
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,592	$ 843

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

	2021	2020
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, 2021 and 2020.

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	$ -	$ -

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

2020	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 1,625	$ 1,625	$ -	$ -
Equity securities:				
U.S. large-cap (a)	-	-	-	-
U.S. small-cap (b)	-	-	-	-
International large-cap (c)	-	-	-	-
Fixed income securities:				
Obligations of states and political subdivisions (d)	2,519	2,334	185	
Accrued other income	7	-	7	-
Total	$ 4,151	$ 3,959	$ 192	$ -

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500.
(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 tax exempt state, municipalities and local government agency fixed income debentures of a short to intermediate term to maturity.

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.

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

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

When the Plan held more than cash and 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 was 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 was managed through a relatively passive approach to asset allocation. The Investment Manager maintained the policy asset allocation listed below except for those unusual and well documented market related events that may dictate otherwise. Stated below was the policy asset allocation at market values of plan assets. This was the long-term asset allocation desired by the Board, which approximated the actual average asset allocation over a three to five year period. In practice, asset allocation was monitored on a monthly basis and at such time as any of the minimum or maximum target asset allocations were pierced, a rebalancing transaction was required to bring all asset allocations back to policy target ranges.

Also 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%

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

	2021	2020
Asset category:		
Equity	-%	-%
Fixed income	-%	61%
Other	100%	39%
Total	100%	100%

Prior to the amendment, the primary investment objective for the Plan's assets was 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 was reviewed quarterly to determine whether the portfolio mix was within an acceptable range of target allocation. Target asset allocations were based on asset and liability studies with the goal to enhance the expected return of the retirement portfolio while maintaining acceptable levels of risk. After the amendment, all investments are held in cash.

The Bank uses a December 31 measurement date for the Plan. For measurement purposes, the healthcare trend rate of 5.5% was used in 2021 and 2020. 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.

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

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

	2021	2020
Discount rate	3.00%	2.70%
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:

	2021	2020
Discount rate	2.70%	3.40%
Expected return of plan assets	1.50%	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, 2021, 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, 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
2022	$ 406
2023	$ 400
2024	$ 389
2025	$ 377
2026	$ 367
2027 through 2031	$ 1,640

(In thousands, except per share amounts)

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:

	2021	2020
Commitments to extend credit	$ 432,825	$ 399,557
Standby letters of credit	12,436	5,194
Total loan commitments	$ 445,261	$ 404,751

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 credit and standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2021 and 2020. 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 $6,851 and $2,879 at December 31, 2021 and 2020, respectively.

(Continued)

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

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, 2021, and 2020, the Bank had accrued $12,625 and $13,462, respectively, for potential 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 $468 and $1,036 for the years ended December 31, 2021 and 2020, respectively. Amounts recognized in accumulated other comprehensive income as of December 31, 2021 and 2020, 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, 2021 and 2020, the liability for accrued deferred compensation, including interest earned, totaled $4,579 and $4,569, 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, 2021 and 2020 in the amount of $2,856 and $2,784, 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 $64,453 and $52,932 as of December 31, 2021 and 2020, 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, 2021, 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, 2021 and 2020, 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, 2021 and 2020 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, 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%
December 31, 2020						
Total capital (to risk-weighted assets)	$ 324,068	15.92%	$ 162,832	8.0%	$ 203,540	10.0%
Tier 1 capital (to risk-weighted assets)	$ 298,425	14.66%	$ 122,124	6.0%	$ 162,832	8.0%
Common Tier 1 (CET I)	$ 298,425	14.66%	$ 91,593	4.5%	$ 132,301	6.5%
Tier 1 capital (to average assets)	$ 298,425	9.52%	$ 125,332	4.0%	$ 156,665	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, 2021 and 2020, respectfully. Items outside the scope of ASC 606 are noted as such.

	2021	2020
Non-interest Income		
Service charges and fees	$ 3,159	$ 3,594
Trust income	10,482	8,951
Merchant discount and interchange fees	3,904	4,116
Income from bank owned life insurance[a]	1,902	1,764
Other income[a]	4,198	3,110
Total non-interest income	$ 23,645	$ 21,535

[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, 2021, minimum commitments under these non-cancellable leases with initial or remaining terms of one year or more are as follows:

Year Ending December 31,	
2022	$ 1,689
2023	1,712
2024	1,460
2025	1,127
2026	955
Thereafter	1,365
Total undiscounted lease payments	8,308
Less: imputed interest	(367)
Net lease liabilities	$ 7,941

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 $1,694 and $1,861 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 are as follows:

	Balance Sheet Classification	2021	2020
Right-of-use assets:			
Operating lease	Accrued interest receivable and other assets	$ 7,941	$ 8,364
Lease liabilities:			
Operating lease	Accrued interest payable and other liabilities	$ 7,941	$ 8,364