FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K/A
Amendment No. 1

[X] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2021

[ ] **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

FDIC Certificate Number 32203

Summit State Bank
(Exact name of registrant as specified in its charter)

California
(State of incorporation)

94-2878925
(I.R.S. Employee Identification No.)

500 Bicentennial Way, Santa Rosa, California 95403
(Address of principal executive offices)

(707) 568-6000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SSBI	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes [ ] No [X]

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under these sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period of that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes[X] No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," an "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. [ ]

Indicate by check mark if the registrant is a shell company (as defined), in Rule 12b(2) of the Exchange Act.
Yes [ ] No [X]

The aggregate market value of the Common Stock held by nonaffiliates as of June 30, 2021, the last business day of the registrant's most recently completed fiscal quarter, was approximately $94,321,000 (based upon the closing price of shares of the registrant's Common Stock, no par value, as reported by the NASDAQ Stock Market, LLC on such date). The number of shares outstanding of the registrant's common stock (no par value) at the close of business March 28, 2022 was 6,684,759.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2022 Annual Meeting of Shareholders to be filed within 120 days of the fiscal year ended December 31, 2021 are incorporated by reference into Part III.

EXPLANATORY NOTE

Summit State Bank (the "Bank") is filing this Amendment No. 1 on Form 10-K/A ("Amended Report") to amend its Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Federal Deposit Insurance Corporation ("FDIC") on March 28, 2022 (the "Original 10-K").

Restatement of Financial Statements

The Bank is filing this Amended Report to restate its Financial Statements for the year ended December 31, 2021, to make corrections to the Statements of Cash Flows in the Original 10-K. The Statements of Cash Flows in the Original 10-K misclassified certain loan sales as operating activity rather than investment activity. As restated and included in this Amended Report, the Statements of Cash Flows in the Bank's Financial Statements for the year ended December 31, 2021 properly classify "Proceeds from sales of loans other than loans originated for resale" as investment activity rather than operating activity. Further explanation regarding the restatement is set forth in Item 7 to Financial Statements included in this Amended Report.

Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. Additionally, the restatement does not impact the current or prior balance sheets or income statements.

The following sections in the Original 10-K have been corrected in this Amended Report to reflect the restatement:

- Part II, Item 7. Financial Statements and Supplementary Data
- Part II, Item 8A. Controls and Procedures – Statement of Cash Flows and Note 1
- Part II, Item 14 – Exhibits and Financial Statement Schedules.

In connection with the above, management has assessed the effectiveness of the Bank's disclosure controls and procedures and has included applicable disclosure in Item 8A herein, "Controls and Procedures." Management identified a material weakness in the Bank's internal control over financial reporting as described under "Management's Report on Internal Control over Financial Reporting" in Item 8A, resulting in the conclusion by the Bank's Chief Executive Officer and Chief Financial Officer that the Bank's disclosure controls and procedures and internal control over financial reporting were not effective at a reasonable assurance level as of December 31, 2021. Management has taken and is taking additional steps, as described under "Remediation Plan and Status" in Item 8A, to remediate this material weakness in our internal control over financial reporting.

The Bank's principal executive officer and principal financial officer have also provided new certifications as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

This Amended Report sets forth the information in the each of the listed Items in its entirety, as such information is modified and superseded where necessary to reflect the restatement. Except as provided above, this Amended Report does not reflect events occurring subsequent to the filing of the Original 10-K and does not amend or otherwise update any information in the Original 10-K.

To preserve the nature and character of the disclosures set forth in the Original 10-K, except as expressly noted above, this Amended Report speaks as of the date of the filing of the Original 10-K, and the Bank has not updated the disclosures in this Amended Report to speak as of a later date. All information contained in this Amended Report is subject to updating and supplementing as provided in filings with the FDIC subsequent to the date of the Original 10-K. Accordingly, this Amended Report should be read in conjunction with the Bank's filings made with the FDIC subsequent to the Original Report.

Forward Looking Statements. This Amended Report may include forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

These forward-looking statements may relate to, among other things, expectations regarding the Bank's disclosure controls and procedures and the remediation plans and efforts with respect to such controls and procedures; the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience and perceived opportunities in the market. Factors that may cause actual results to vary from forward-looking statements include, but are not limited to, management's ability to identify and successfully remediate any deficiencies in the Bank's disclosure controls and procedures, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the Bank's business, legislative and regulatory changes such as the Coronavirus Aid, Relief and Economic Security Act of 2020, government monetary and fiscal policies, natural disasters such as wildfires and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics such as COVID-19 and the economic impact caused by the pandemic and by government responses thereto, real estate valuations, competition in the financial services industry, demographic changes, technological factors including external fraud and cybersecurity threats, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this Amended Report. Some additional factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," in its Annual Report on Form 10-K for the year ended December 31, 2021 on file with the Federal Deposit Insurance Corporation ("FDIC").

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Outcomes and the Bank's future results may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. The Bank undertakes no obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports the Bank may file with the FDIC, including on Forms 10-K, 10-Q, and 8-K.

SUMMIT STATE BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021 AND 2020

AND FOR THE YEARS ENDED

DECEMBER 31, 2021, 2020 and 2019

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Summit State Bank

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Summit State Bank (the "Bank") as of December 31, 2021 and 2020, the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 1 to the financial statements, the financial statements have been restated.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2021, due to the adoption of Accounting Standards Codification Topic 326: Financial Instruments – Credit Losses ("Topic 326"). The Company adopted the new credit loss standard using the modified retrospective approach such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements, and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Loans

As described in Notes 1 and 3 to the financial statements, the Company's allowance for credit losses on loans at December 31, 2021, was $12.3 million on a total loan portfolio of $833 million. The Company adopted the current expected credit losses standard, and all related amendments as of January 1, 2021, and has an established process to determine the appropriateness of the allowance for credit losses on loans. The allowance for credit losses provides an estimate of lifetime expected losses in the loan portfolio. The measurement of expected credit losses is based on relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable, and supportable forecasts that affect the collectability of the financial assets.

We identified the allowance for credit losses on loans as a critical audit matter. The principal consideration for our determination of the allowance for credit losses on loans as a critical audit matter is the subjectivity required in the estimation and application of forecasted economic scenarios, and the estimation of qualitative factors, both of which are used in the allowance for credit losses calculation, as a critical audit matter. Determination of the economic forecast scenarios and qualitative factors involve significant management judgement. Auditing management's judgments regarding the determination of economic forecast scenarios, and qualitative factors applied to the allowance for credit losses involved a high degree of subjectivity.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the design, and implementation of internal controls related to management's calculation of the allowance for credit losses on loans, including internal controls over the forecasted economic scenarios, and estimation of qualitative factors.

- Obtaining management's analysis and supporting documentation related to the forecasted economic scenarios, and testing whether the forecasts used in the calculation of the allowance for credit losses on loans are reasonable and supportable based on the analysis provided by management.

- Obtaining management's analysis and supporting documentation related to qualitative factors and testing whether the qualitative factors used in the calculation of the allowance for credit losses on loans are reasonable and supportable based on the analysis provided by management.

- Testing the appropriateness of the methodology and assumptions used in the calculation of the allowance for credit losses on loans.

- Testing the completeness and accuracy of the data used in the calculation of the allowance for credit loss on loans, application of the forecasted economic scenarios, and qualitative factors determined by management and used in the calculation and verifying calculations in the allowance for credit losses on loans.

/s/ Moss Adams LLP

Sacramento, California
March 28, 2022, except for the effects of the restatement disclosed in Note 1, for which the date is November 21, 2022.

We have served as the Company’s auditor since 2012.

Management's Report on Internal Control over Financial Reporting

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Bank’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and board of directors; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Management conducted a reassessment of the effectiveness of internal control over financial reporting as of December 31, 2021, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2021due to a material weakness.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

A material weakness was identified related to the ineffective operation of financial close and reporting controls in determining the proper application of generally accepted accounting principles. The material weakness resulted in the restatement of the Bank’s financial statements to correct the presentation of proceeds from sales of loans within its statement of cash flows. Notwithstanding the determination that there was a material weakness as identified in this Annual Report, we believe that our financial statements contained herein fairly present our financial position, results of operations and cash flows for the years covered hereby in all material respects.

This annual report does not include an attestation report of the Bank’s independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank’s independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report.

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer

SUMMIT STATE BANK
BALANCE SHEETS
(In thousands except share data)

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 40,699	$ 30,826
Investment securities:		
Available-for-sale (at fair value; amortized cost of $69,902 in 2021 and $66,335 in 2020)	69,367	67,952
Loans, less allowance for credit losses of $12,329 in 2021 and $8,882 in 2020 (1)	820,987	745,939
Bank premises and equipment, net	5,677	5,994
Investment in Federal Home Loan Bank stock, at cost	4,320	3,429
Goodwill	4,119	4,119
Accrued interest receivable and other assets	12,911	7,595
Total assets	$ 958,080	$ 865,854
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 234,824	$ 199,097
Demand - interest-bearing	147,289	88,684
Savings	69,982	42,120
Money market	168,637	167,113
Time deposits that meet or exceed the FDIC insurance limit	29,255	35,765
Other time deposits	161,613	193,516
Total deposits	811,600	726,295
Federal Home Loan Bank advances	48,500	53,500
Junior subordinated debt	5,891	5,876
Accrued interest payable and other liabilities	7,807	4,554
Total liabilities	873,798	790,225
Commitments and contingencies (Note 11)		
Shareholders' equity		
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,684,759 in 2021 and 6,676,509 in 2020 (2)	37,014	36,981
Retained earnings	47,644	37,510
Accumulated other comprehensive (loss) income, net of tax	(376)	1,138
Total shareholders' equity	84,282	75,629
Total liabilities and shareholders' equity	$ 958,080	$ 865,854

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.

(2) Adjusted for 10% stock dividend declared; effective October 29, 2021

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

SUMMIT STATE BANK
STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Year Ended December 31,		
	2021	2020	2019
Interest income:			
Interest and fees on loans	$ 40,192	$ 34,633	$ 27,585
Interest on deposits with banks	37	65	251
Interest on investment securities	1,500	1,498	1,941
Dividends on FHLB stock	244	229	224
Total interest income	41,973	36,425	30,001
Interest expense:			
Deposits	3,205	4,956	6,422
Federal Home Loan Bank advances	787	833	414
Junior subordinated debt	375	375	189
Total interest expense	4,367	6,164	7,025
Net interest income before provision for credit losses	37,606	30,261	22,976
Provision for credit losses (1)	1,294	2,100	700
Net interest income after provision for credit losses	36,312	28,161	22,276
Non-interest income:			
Service charges on deposit accounts	858	808	869
Rental income	353	351	344
Net gain on loan sales	3,343	2,108	1,253
Net securities gain (loss)	65	874	(6)
Other income	282	307	202
Total non-interest income	4,901	4,448	2,662
Non-interest expense:			
Salaries and employee benefits	12,720	10,748	9,836
Occupancy and equipment	1,637	1,605	1,693
Other expenses	5,976	5,318	4,534
Total non-interest expense	20,333	17,671	16,063
Income before provision for income taxes	20,880	14,938	8,875
Provision for income taxes	6,182	4,421	2,398
Net income	$ 14,698	$ 10,517	$ 6,477
Basic earnings per common share (2)	$ 2.20	$ 1.58	$ 0.97
Diluted earnings per common share (2)	$ 2.20	$ 1.57	$ 0.97
Basic weighted average shares of common stock outstanding (2)	6,680	6,677	6,675
Diluted weighted average shares of common stock outstanding (2)	6,682	6,680	6,681

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.
(2) Adjusted for 10% stock dividend declared; effective October 29, 2021

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

SUMMIT STATE BANK

STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income	$ 14,698	$ 10,517	$ 6,477
Change in securities available-for-sale:			
Unrealized holding (losses) gains on available-for-sale securites arising during the period	(2,084)	1,844	3,186
Reclassification adjustment for (gains) losses realized in net income on sales of available-for-sale securities	(65)	(874)	6
Net unrealized (losses) gains, before benefit (provision) for income tax	(2,149)	970	3,192
Income tax benefit (provision)	635	(289)	(946)
Total other comprehensive (loss) income, net of tax	(1,514)	681	2,246
Comprehensive income	$ 13,184	$ 11,198	$ 8,723

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

SUMMIT STATE BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except per share data)

	Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Earnings	Income (Loss)	Equity
Balance, January 1, 2019	6,066	36,967	26,342	(1,789)	61,520
Net income			6,477		6,477
Other comprehensive income, net of tax				2,246	2,246
Exercise of stock options	4	14			14
Cash dividends - $0.48 per share			(2,913)		(2,913)
Balance, December 31, 2019	6,070	36,981	29,906	457	67,344
Net income			10,517		10,517
Other comprehensive loss, net of tax				681	681
Cash dividends - $0.48 per share			(2,913)		(2,913)
Balance, December 31, 2020	6,070	$ 36,981	$ 37,510	$ 1,138	$ 75,629
Net income			14,698		14,698
Other comprehensive loss, net of tax				(1,514)	(1,514)
Exercise of stock options	7	33			33
Stock dividend (1)	608				
Cumulative effect of change in accounting principle ASU 2016-13 (2)			(1,575)		(1,575)
Cash dividends - $0.48 per share			(2,989)		(2,989)
Balance, December 31, 2021	6,685	$ 37,014	$ 47,644	$ (376)	$ 84,282

(1) 10% stock dividend declared; effective October 29, 2021

(2) Refer to Note 1, Summary of Significant Accounting Policies, for information on the adoption of ASU 2016-13 in 2021

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

SUMMIT STATE BANK
STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2021 (Restated)	2020 (Restated)	2019 (Restated)
Cash flows from operating activities:			
Net income	$ 14,698	$ 10,517	$ 6,477
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	408	433	498
Securities amortization and accretion, net	236	131	31
Accretion of net deferred loan fees	(6,033)	(4,946)	(1,679)
Provision for credit losses (1)	1,294	2,100	700
Net securities (gains) loss	(65)	(874)	6
Net gain on loan sales	(3,343)	(2,108)	(1,253)
Amortization of debt issuance cost on Junior Subordinated Debt	15	14	-
Net change in accrued interest receivable and other assets	(506)	(1,505)	(135)
Net change in accrued interest payable and other liabilities	310	(92)	(744)
Share-based compensation expense	460	62	235
Net cash from operating activities	7,474	3,732	4,136
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(34,679)	(65,908)	-
Proceeds from sales of available-for-sale investment securities	-	-	9,059
Proceeds from calls of held-to-maturity investment securities	-	8,000	-
Proceeds from calls and maturities of available-for-sale investment securities	30,944	53,908	10,020
Purchase of Federal Home Loan Bank stock	(891)	(87)	(257)
Loan origination and principal collections, net	(113,766)	(196,361)	(90,090)
Proceeds from sales of loans other than loans originated for resale	44,550	31,924	20,323
Purchases of bank premises and equipment, net	(91)	(126)	(996)
Cash paid for affordable housing tax credit investment	(1,017)	-	-
Net cash used in investing activities	(74,950)	(168,650)	(51,941)
Cash flows from financing activities:			
Net change in demand, savings and money market deposits	123,718	141,811	39,663
Net change in certificates of deposit	(38,413)	10,647	32,985
Net change in short term Federal Home Loan Bank advances	-	(33,100)	(23,700)
Long Term Advances from Federal Home Loan Bank	-	46,000	12,500
Repayment of Long Term Advances from Federal Home Loan Bank	(5,000)	(5,000)	
Net proceeds received upon issuance of Junior Subordinated Debt	-	-	5,862
Dividends paid on common stock	(2,989)	(2,913)	(2,913)
Proceeds from exercise of stock options	33	-	14
Net cash from financing activities	77,349	157,445	64,411
Net change in cash and cash equivalents	9,873	(7,473)	16,606
Cash and cash equivalents at beginning of year	30,826	38,299	21,693
Cash and cash equivalents at end of period	$ 40,699	$ 30,826	$ 38,299
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 4,593	$ 6,143	$ 6,991
Income taxes	$ 5,690	$ 5,690	$ 2,140
Noncash investing activities:			
Net unrealized gains (losses) on available-for-sale securities	$ (2,149)	$ 970	$ 3,192
Cumulative effect of CECL adoption	$ 1,575	$ -	$ -
Initial Recognition of Lease Right-of-Use Assets	$ -	$ -	$ 1,249
Initial Recognition of Lease Liabilities	$ -	$ -	$ 1,249

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.

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

SUMMIT STATE BANK

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Summit State Bank (the "Bank") is a California-charted commercial bank that provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank is headquartered in Santa Rosa and operates branch offices in Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans.

The Bank received authority to transact business as a California-chartered commercial bank on January 15, 1999 and is subject to regulation, supervision and examination by the California Department of Financial Protection and Innovation (DFPI) and the Federal Deposit Insurance Corporation. The Bank was originally organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990 prior to converting to its current California commercial bank charter.

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Restatement of Statement of Cash Flows

Subsequent to the issuance of the Bank's Financial Statements for the year ended December 31, 2021, management determined that the Statement of Cash Flows incorrectly identified the line "Proceeds from sales of loans other than loans originated for resale" within "cash flows from operating activities" versus the proper classification within "cash flows from investing activities" on the statement of cash flows.

This restatement reclassifies "Proceeds from sales of loans other than loans originated for resale" from "cash flows from operating activities" into "cash flows from investing activities" on the statement of cash flows. Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. Additionally, the restatement does not impact any the current or prior balance sheet or income statement.

The impact of correcting the errors in the statement of cash flows for the years ended December 31, 2021 is as follows:

	Original	Adjustment	Corrected
		(in thousands)	
December 31, 2021 Form 10-K			
Year ended December 31, 2021			
Net cash flows from operating activities	52,024	(44,550)	7,474
Net cash (used in) provided by investing activitites	(119,500)	44,550	(74,950)
Year ended December 31, 2020			
Net cash flows from operating activities	35,656	(31,924)	3,732
Net cash used in investing activitites	(200,574)	31,924	(168,650)
Year ended December 31, 2019			
Net cash flows from operating activities	24,459	(20,323)	4,136
Net cash used in investing activitites	(72,264)	20,323	(51,941)

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for credit losses, goodwill impairment and fair values of investment securities and other financial instruments are particularly subject to change.

Operating Segments

While the Bank's chief decision makers monitor the revenue streams of the Bank's various products and services, operations are managed and financial performance is evaluated on a bank-wide basis. Operating segments are aggregated into one segment as operating results for all segments are substantially the same.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Bank considers cash and due from banks with original maturities under 90 days and Federal funds sold to be cash equivalents. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in banks and short-term borrowings with an original maturity of 90 days or less.

Securities

Debt securities classified as available-for-sale are available for future liquidity requirements and may be sold prior to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, net of the securities allowance for credit losses. Debt securities classified as available-for-sale are measured at fair value and unrealized holding gains and losses are excluded from earnings and reported net of tax as accumulated other comprehensive income (AOCI), a component of shareholders' equity, until realized. (See Note 15 Fair Values for a more complete discussion of accounting for the fair value of financial instruments.) Realized gains and losses on sale are computed on the specific identification method and are included in earnings on the trade date.

Allowance for Credit Losses – Available-for-Sale ("AFS") Debt Securities

Effective January 1, 2021, the allowance for credit losses ("ACL") on investment securities classified as available-for-sale is determined in accordance with Accounting Standards Codification ("ASC") 326 – *Financial Instruments-Credit Losses*. For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If the Bank intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its cost basis, the entire loss would be recognized in earnings. If the Bank does not intend to sell the security and it is more likely than not that the Bank will not be required to sell the security, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Projected cash flows are discounted by the current effective interest rate. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. The remaining loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to AOCI.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the noncollectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

As of January 1, 2021 and December 31, 2021, the Bank determined that the unrealized loss positions in AFS securities were not the result of credit losses, and therefore, an allowance for credit losses with respect to AFS securities was not recorded. See Note 2 – Investment Securities for more information.

A debt security is placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There were no accrued interest amounts reversed against interest income for the year ended December 31, 2021. Accrued interest receivable on AFS debt securities totaled $363,000 at December 31, 2021 and is excluded from the estimate of credit losses.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are stated at principal balances outstanding, net of deferred loan origination fees and costs and the allowance for credit losses, adjusted for accretion of discounts or amortization of premiums. Interest is accrued daily based upon outstanding loan balances. However, for all loan classes, when in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest previously 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 payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Bank's policy, typically after 90 days of non-payment.

For loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties ("troubled debt restructuring"), they are returned to accrual status when there has been a sustained period of repayment performance (generally, six consecutive monthly payments) according to the modified terms and there is reasonable assurance of repayment and of performance.

The Bank has elected to account for eligible COVID-19 loan modifications under Section 4013 of the CARES Act. To be an eligible loan under Section 4013 of the CARES Act, a loan modification must be (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020 and the earlier of (a) 60 days after the date of termination on the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak ("national emergency") or (b) January 1, 2022. Eligible COVID-19 loan modifications are not required to be classified as TDRs and will not be reported as past due provided they are performing in accordance with the modified terms. Interest income will continue to be recognized in accordance with GAAP, unless the loans is placed on non-accrual status.

COVID-19-loan modification deferrals increases the total balance due on the loan and re-amortizes the monthly payment through the original maturity date. For loans subject to the program, each borrower is required to resume making regularly scheduled loan payments at the end of the modification period. Management anticipates deferment activity will continue into 2022.

Allowance and Provision for Credit Losses – Loans and Leases

Effective January 1, 2020, the Bank accounts for credit losses on loans in accordance with ASC 326 – *Financial Instruments-Credit Losses*. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. The Bank has elected to exclude accrued interest receivable from the amortized cost basis in the estimate of the allowance for credit losses. The provision for credit losses reflects the amount required to maintain the allowance for credit losses at an appropriate level based upon management's evaluation of the adequacy of collective and individual loss reserves. The Bank's methodologies for determining the adequacy of allowance for credit losses are set forth in a formal policy and take into consideration the need for a valuation allowance for loans evaluated on a collective pool basis which have similar risk characteristics, as well as allowances that are tied to individual loans that do not share risk characteristics. The Bank increases its allowance for credit losses by charging the provision for credit losses on its statement of income. Losses related to specific assets are applied as a reduction of the carrying value of the assets and charged against the allowance for credit loss when management believes the non-collectability of a loan balance is confirmed. Recoveries on previously charged off loans are credited to the allowance for credit losses.

Management conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more comprehensive evaluation quarterly. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio and economic conditions. These adjustments to historical loss factors include, among others, changes in the size and composition of the loan portfolio, delinquent and nonaccrual loans, and current and projected economic conditions, as well as changes in economic factors including unemployment rates, property values, Consumer Price Index, Gross Domestic Product, or other relevant factors.

The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. In estimating the component of the allowance for credit losses for loans that share common risk characteristics, loans are pooled based on the loan types and areas of risk concentration. For loans evaluated collectively as a pool, the allowance for credit losses is calculated using regression analysis (includes non-accrual rates, gross charge-offs and recovery rates), life of loan, and historical losses adjusted for economic forecasts and current conditions.

Historical credit loss assumptions for each pool are estimated using an econometric timeseries regression analysis which establishes a correlation between non-accrual rates, gross charge-off rates, and recovery rates. This is a three-part process that first separately analyzes non-accrual rates by loan pool, then calculates gross charge-off rates using the modeled non-accrual rate from the prior step, and third, calculates the recovery rate using the modeled rate from the prior step. This model implies historical values of non-accruals are directly correlated to current charge-offs, which is directly correlated to future recoveries. In calculating these separately over time, the model incorporates the entire default cycle of a loan pool while also including the appropriate time lags between events.

The model captures a complete cycle of historical loss data from the last recession (2009 through 2016) and management uses economic indicators from the Office of the Comptroller of the Currency (OCC)'s Dodd-Frank Act Stress Test (DFAST) historical dataset of actual econometric national variables to adjust historical loss rates. The adjustment to historical loss rates better reflects management's expectations of future conditions over the remaining lives of the loans in the portfolio based on reasonable and supportable forecasts. These economic indicators are selected based on correlation to the Bank's historical credit loss experience and are evaluated for each loan category to ensure proper correlation relationships using economic logic. The DFAST dataset incorporates many variables including unemployment, gross domestic product, consumer price index, real estate price index, treasury yields, and mortgage rates.

The effective life of loan pool is then calculated using loans paid off from 2009 through 2016. Although the life of loan is generally considered to be the contractual maturity of a loan, the Bank's model includes expected prepayments when estimating credit loss, thereby reflecting effective maturity as opposed to contractual maturity. The average and median life of loan is calculated by loan pool.

The net charge-off rate (or gross charge-off rates minus recovery rates) are then forecasted over the life of loan pool for the entire portfolio to derive the future expected loss. The Bank uses the OCC's DFAST Base Case Scenario for forecasting future expected loss.

The Bank also incorporates qualitative factors in establishing the allowance for credit losses that management believes are reasonable and supportable at each reporting date. The following qualitative factors are considered in establishing the Bank's CECL Allowance:

- Economic Forecast Scenarios – In order to produce a reasonable and supportable forecast, the Bank utilizes multiple economic forecasts to determine the appropriate level of life of loan loss reserves. At least annually, individual economic forecast scenarios are analyzed and selected by management based on current and expected economic activity.
- Economic Forecast Weighting – In order to produce a reasonable and supportable forecast, the Bank utilizes multiple economic forecasts to determine the appropriate level of life of loan loss reserves. At least annually, each individual economic forecast scenario is analyzed by management to evaluate the appropriate weighting based on current and expected economic activity. The sum of all weights will always total 100%.
- Near-term Loan Loss Stabilization – In order to produce a more stable loan loss provision, at least annually management will analyze and adjust the appropriate level of life of loan loss reserves based on current and expected changes in modeled loan loss reserves over a one-year horizon.

Portfolio segmentation is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. The Bank has designated the following portfolio segments of loans and leases by the following call report categories: commercial & agricultural, real estate – commercial, real estate – construction and land, real estate – single family, real estate – multifamily and consumer & lease financing. The method for determining the allowance for credit losses described above is used to determine the allowance for credit losses in each portfolio segment in the Bank's loan portfolio.

Loans that do not share risk characteristics with other loans in the portfolio are individually evaluated for impairment and are not included in the collective evaluation. Factors involved in determining whether a loan should be individually evaluated include, but are not limited to, the financial condition of the borrower and the value of the underlying collateral. Expected credit losses for loans evaluated individually are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate or when the Bank determines that foreclosure is probable, the expected credit loss is measured based on the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. As a practical expedient, the Bank measures the expected credit loss for a loan using the fair value of the collateral less the cost to sell. Collateral may consist of various types of real estate including residential properties; commercial properties such as retail centers, office buildings, and lodging; agriculture land; and vacant land. The Bank assesses these loans on each reporting date to determine whether repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty.

In both cases, if the fair value of the collateral is less than the amortized cost basis of the loan, the Bank will recognize an allowance or partial charge off as the difference between the fair value of the collateral, less costs to sell, if applicable, at the reporting date and the amortized cost basis of the loan. If the fair value of the collateral exceeds the amortized cost basis of the loan, any expected recovery added to the amortized cost basis will be limited to the amount previously charged-off. Subsequent changes in the expected credit losses for loans evaluated individually are included within the provision for credit losses in the same manner in which the expected credit loss initially was recognized or as a reduction in the provision that would otherwise be reported.

Some of the Bank's loans are reported as troubled debt restructurings (TDRs). Loans are reported as TDRs when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. The allowance for credit losses on a TDR is determined using the same method as all other loans held for investment, except when the value of the concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method the allowance for credit losses is determined by discounting the expected future cash flows at the original interest rate of the loan.

The CARES Act provided guidance around the modification of loans as a result of the COVID-19 pandemic, which outlined, among other criteria, that short-term modifications made on a good faith basis to borrowers who were current as defined under the CARES Act prior to any relief, are not TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers are considered current under the CARES Act if they are less than 30 days past due on their contractual payments at the time a modification program is implemented.

The Bank is subject to periodic examinations by its federal and state regulatory examiners and may be required by such regulators to recognize additions to the allowance for credit losses based on their assessment of credit information available to them at the time of their examinations. The process of assessing the adequacy of the allowance for credit losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for credit losses.

<u>Allowance for Loan Losses – Prior to Adoption of ASC 326 on January 1, 2021</u>

Prior to the Adoption of ASC 326 on January 1, 2021, the Bank maintained an allowance for loan losses in accordance with ASC 450 – *Contingencies* and ASC 310 – *Receivables*. The allowance for loan losses was a valuation allowance for probable incurred credit losses. Management estimated the allowance for loan losses balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions at the local, state and national level, including economic uncertainties of the COVID-19 pandemic, the economic impact caused by this disease and the government's responses thereto, and other factors including historical loss experience. Allocations of the allowance may be made for specific loans, but the entire allowance was available for any loan that, in management's judgment, should be charged-off.

Under ASC 326, a loan was classified as impaired when, based on current information and events, it was probable that the Bank would be unable to collect all amounts due according to the contractual terms of the loan agreement. Commercial & agricultural, real estate-commercial, real estate-construction and land, and real estate-multifamily loans were individually evaluated for impairment. Large groups of smaller balance homogeneous loans such as real estate-single family units and consumer & lease financing were collectively evaluated for impairment, and accordingly, were not separately identified for impairment disclosures. Impaired loans were measured at the present value of expected future cash flows discounted at the loan's original effective interest rate, or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan was collateral dependent. When the measure of the impaired loan was less than the recorded investment in the loan, the impairment was recorded through an allocation of a portion of the allowance for loan losses.

The allowance for loan losses consisted of specific and general components. The specific component related to loans that were individually classified as impaired. The general component covered loans that were both non-impaired and non-classified and was based on historical loss experience adjusted for qualitative factors. The historical loss experience was determined by portfolio segment and was based on the actual loss history experienced by the Bank. This actual loss experience was supplemented with other qualitative factors based on the risks present for each portfolio segment. These factors included consideration of the following: levels of and trends in delinquencies and impaired loans; economic/sector trends, COVID-19 pandemic economic forecasts, lending policy changes, changes in loan review, growth trends, concentrations as a percent of capital, collateral value, changes in personnel and changes in delinquencies.

Loan Origination and Commitment Fees

Loan origination fees, net of certain specifically defined direct loan origination costs, are deferred and recognized as an adjustment of the loans' interest yield using the level-yield method over the contractual term of each loan adjusted for actual loan prepayment experience. Loan commitment fees are deferred until the expiration of the commitment period unless management believes there is a remote likelihood that the underlying commitment will be exercised, in which case the fees are amortized to fee income using the straight-line method over the commitment period. If a loan commitment is exercised, the deferred commitment fee is accounted for in the same manner as a loan origination fee. Deferred commitment fees associated with expired commitments are recognized as fee income.

Bank Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings are estimated to be 39 years and furniture, fixtures and equipment are estimated to be 3 to 15 years. Leasehold improvements are amortized over the estimated useful life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation 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.

Investment in Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost and is generally redeemable at par. Both cash and stock dividends are reported as income.

Goodwill

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. Management has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Management assesses the carrying value of goodwill at least annually in order to determine if this intangible asset is impaired. More frequent assessments of goodwill are performed when either the Bank experiences a significant degradation in stock price or other factors are identified that impact valuation. In reviewing the carrying value of goodwill, management assesses the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, or other factors are identified that may impact valuation, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

Accrued Interest Receivable

The Bank has elected to present accrued interest receivable within the accrued interest receivable and other asset line on the balance sheet, sperate from the associated loan balances, exclude accrued interest receivable that is included in the amortized cost of financing receivables from related disclosure requirements, and continue to write off accrued interest by reversing interest income. The Bank will not measure an allowance for credit losses for accrued interest receivable due to the Bank’s policy of writing off uncollectible accrued interest receivable in a timely manner.

The Bank began offering loan modifications to assist borrowers negatively impacted by the COVID-19 national emergency. In general, these loans are considered current if they are less than 30 days past due on their contractual payments at the time the loan modification program was put in place. The Bank does not classify such loans as nonperforming and continues to accrue and recognize interest income during the forbearance period. For these loans, the Bank evaluates the need to record an allowance for the related accrued interest receivable as any amounts that may become uncollectible and may not be considered written off in a timely manner.

Investment in Low Income Housing Tax Credit Funds

In 2021, the Bank invested in a limited partnership that was formed to develop and operate affordable housing projects for low or moderate-income tenants. The Bank's ownership percentage is 5%. The investment is in qualified affordable housing tax credit funds and is accounted for using the proportional amortization method, where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received. Low-income housing tax credits and other tax benefits received, net of the amortization of the investment, is recognized as part of provision for income taxes. The partnership must meet the regulatory minimum requirements for affordable housing for a minimum 15- year compliance period to fully utilize the tax credits. If the partnership ceases to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest. The Bank will record an impairment charge if the value of the future tax credits and other tax benefits is less than the carrying value of the investment.

Reserve for Unfunded Commitments ("Unfunded Reserve")

The Unfunded Reserve represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit (available balance on lines of credit including construction lines of credit) and standby letters of credit. The Unfunded Reserve is recognized as a liability (within other liabilities in the balance sheets), with adjustments to the reserve recognized in operating expense in the statement of income. The Unfunded Reserve is determined by taking the maximum unfunded credit limit as of the report date and applying the expected loss rates on those draws by loan pool.

Transfer of Financial Assets

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

Income Taxes

Income tax expense is the total of the 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 tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

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. The Bank has not accrued any potential interest and penalties as of December 31, 2021 and December 31, 2020 and for the three years ended December 31, 2021 for uncertainties related to income taxes.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Bank. In 2021 the Bank had 7,500 outstanding vested options that were exercised before year-end; because of this the Bank has 2,700 stock options considered in computing dilutive earnings per share for the year ended December 31, 2021. Stock options for 0, 3,104, and 2,260 shares of common stock were not considered in computing diluted earnings per share for the years ended December 31, 2021, 2020, and 2019 because they were anti-dilutive.

The Bank issued a one-time 10% stock dividend that was paid on November 4, 2021 to shareholders of record as of the close of business on October 29, 2021. The Bank issued 607,659 shares as a result of the stock dividend, increasing its total shares outstanding to 6,684,759. Fractional shares were all paid out in cash. All prior period average share and earnings per share calculations disclosed in this report have been retroactively adjusted to account for this stock dividend.

The factors used in the earnings per common share computation follow:

	Year Ended December 31		
(in thousands except earnings per share)	2021	2020	2019
Basic			
Net income available for common shareholders	$ 14,698	$ 10,517	$ 6,477
Weighted average common shares outstanding (1)	6,680	6,677	6,675
Basic earnings per common share (1)	$ 2.20	$ 1.58	$ 0.97
Diluted			
Net income available for common shareholders	$ 14,698	$ 10,517	$ 6,477
Weighted average common shares outstanding for basic earnings per common share (1)	6,680	6,677	6,675
Add: Dilutive effects of assumed exercises of stock options	2	3	6
Average shares and dilutive potential common shares (1)	6,682	6,680	6,681
Diluted earnings per common share (1)	$ 2.20	$ 1.57	$ 0.97

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

Share-Based Compensation

Compensation cost is recognized for stock options and stock appreciation rights ("SARs) granted to employees, based on the fair value of these awards at the date of grant. A calculation of the Bank's volatility is utilized to estimate the fair value of stock options and SARs. Compensation cost is recognized over the required service period, generally defined as the vesting period. The Bank's accounting policy is to recognize forfeitures as they occur.

Because the SARs that the Bank has issued require settlement in cash by the Bank, the awards are treated as liabilities under ASC 718 – *Compensation-Stock Compensation*. The awards are measured at their fair value at the grant date and are subsequently remeasured each period at fair value. Changes in the fair value of the awards from quarter to quarter are classified in salaries and employee benefits.

Stock options issued by the Bank qualify for treatment as equity. Equity awards are measured at their fair value on the grant date and are not remeasured subsequent to the grant date except (unless the terms of the awards are subsequently modified).

Non Marketable Securities - Low Income Housing Tax Credits

In 2021 the Bank invested in a low-income housing tax credit fund as a limited partner, which totaled $3,5000,000 recorded in accrued interest receivable and other assets. As of December 31, 2021, the unfunded commitments for low-income housing tax credit funds totaled $2,483,000. The Bank did not recognize any impairment losses on these low-income housing tax credit investments during 2021 as the value of the future tax benefits exceeds the carrying value of the investments.

Revenue Recognition

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

Most of the Bank's revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans and investment securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gain on sale of the guaranteed portion of SBA loans, financial guarantees, derivatives, lease contracts within the scope of ASC 842, and certain credit card fees are also not in scope of the guidance. The Bank's noninterest revenue streams are largely based on transactional activity, such as the gain on sale on the guaranteed portion of SBA loans. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The following are descriptions of revenues within the scope of ASC 606.

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

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

Accounting Standards Adopted in 2021

On January 1, 2021 the Bank adopted the FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on the Financial Instruments, as amended, which replaces the incurred loss methodology that delays recognition until it is probable a loss has been incurred with an expected loss methodology that is referred to as the "current expected credit loss" or "CECL". The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The ASU affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial asset not excluded from the scope that have the contractual right to receive cash. The ASU replaces the incurred loss impairment methodology in previous GAAP with CECL, a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected in the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The ASU broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements.

The Bank has adopted ASC 326 for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the periods beginning after January 1, 2021 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The allowance for credit losses, formerly known as the allowance for loan losses, was $8,882,000 as of December 31, 2020. Upon adoption of CECL on January 1, 2021, the Bank recognized an increase in the allowance for credit losses of $2,250,000, totaling $11,132,000, as a cumulative effect adjustment from change in accounting policies, with a corresponding decrease in retained earnings, net of $675,000 in taxes, of $1,575,000. For banking organizations that experience a reduction in retained earnings from the adoption of CECL, a bank has the option to elect a phase-in approach for up to 3 years of the "day 1" adverse impact to regulatory capital. The Bank has elected to fully phase-in the entire impact to regulatory capital on the first day of the adoption, January 1, 2021.

In addition to the increase in the allowance for credit losses upon adoption, the Bank expects more variability in its quarterly provision for credit losses going forward due to the CECL model's sensitivity to changes in the economic forecast and other factors. The Bank has updated its credit policies based on the adoption of this ASU. The Bank has no HTM investment security obligations and therefore no loss reserves are required for the Bank's investment portfolio.

In April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. With respect to Topic 815, Derivatives and Hedging, ASU 2019-04 clarifies that the reclassification of a debt security from held-to-maturity ("HTM") to available-for-sale ("AFS") under the transition guidance in ASU 2017-12 would not (1) call into question the classification of other HTM securities, (2) be required to actually designate any reclassified security in a last-of-layer hedge, or (3) be restricted from selling any reclassified security. As part of the transition of ASU 2019-04, entities may reclassify securities that would qualify for designation as the hedged item in a last-of-layer hedging relationship from HTM to AFS; however, entities that already made such a reclassification upon their adoption of ASU 2017-12 are precluded from reclassifying additional securities. The Bank adopted this standard on with the adoption of CECL on January 1, 2021. The Bank has no HTM debt securities and therefore did not reclassifying any securities; there has been no impact to the Bank's financial statement results from this new standard.

In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments - Credit Losses (Topic 326); Targeted Transition Relief. This ASU allows entities to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10. The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis. The Bank adopted this standard with the adoption of CECL on January 1, 2021. The Bank has individually assessed its available-for-sale debt securities for losses and determined that no cumulative effect adjustment is required.

In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for income taxes. This ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. Finally, it clarifies that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements, but they could elect to do so. The Bank adopted ASU 2019-12 effective January 1, 2021. This ASU did not have an impact on the Bank's financial condition and results of operations.

In October 2020, the FASB issued ASU No. 2020-08, Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs. This ASU was issued as part of the Board's ongoing project to improve codification or correct unintended application. This ASU adds clarification to ASU 2017-08 and delineates whether an entity with callable debt securities that have multiple call dates should amortize the amount above that which is repayable, to the next call date. This ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, on a prospective basis. Early adoption is not permitted. The Bank has determined that the adoption of this ASU did not have an impact on the Bank's financial condition and results of operations.

Accounting Standards Pending Adoption

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848). The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with the method of adoption varying based on transaction type. Currently the Bank only has no loans but one subordinated debt agreement that references LIBOR. The impact this ASU will have on the Bank is anticipated to be minimal and the Bank has not elected to apply these amendments. The Bank will continue to assess the applicability of the ASU and monitor guidance for reference rate reform from the FASB and its impact on the Bank's financial condition and results of operations.

In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848). The main amendments in this ASU are intended to clarify certain optional expedients and scope of derivative instruments. The amendments are elective and effective immediately upon issuance of this ASU. Amendments may be elected through December 31, 2022. The Bank has not elected to apply amendments at this time, however, will assess the applicability of this ASU and continue to monitor guidance for reference rate reform from FASB and its impact on the Bank's financial condition and results of operations.

2. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at December 31, 2021 and 2020 consisted of the following:

(in thousands)	December 31, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Government agencies	$ 39,985	$ -	$ (962)	$ 39,023
Mortgage-backed securities - residential	10,506	173	(183)	10,496
Corporate debt	19,411	555	(118)	19,848
Total investment securities	$ 69,902	$ 728	$ (1,263)	$ 69,367

(in thousands)	December 31, 2020 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Government agencies	$ 40,992	$ 114	$ (83)	$ 41,023
Mortgage-backed securities - residential	6,469	348	-	6,817
Corporate debt	18,874	1,257	(19)	20,112
Total investment securities	$ 66,335	$ 1,719	$ (102)	$ 67,952

The activity related to recorded gross gains and gross losses from sales of investment securities for the years ended December 31 is reflected in the table below:

(in thousands)	Year Ended December 31 2021	2020	2019
Proceeds from sales	$ -	$ -	$ 9,059
Proceeds from calls	1,066	39,864	699
Gross realized gains on sales and calls	65	874	117
Gross realized losses on sales and calls	-	-	(123)

Net unrealized (losses) gains on available-for-sale investment securities totaling $(535,000), $1,617,000 and $650,000 are recorded, net of $159,000, $(479,000) and $(193,000) in tax benefit (expense), as accumulated other comprehensive income within shareholders' equity at December 31, 2021, 2020 and 2019, respectively.

There were 7 investment securities in a continuous unrealized loss position greater than 12 months at December 31, 2021. At December 31, 2021, the Bank held 22 investment securities which were in an unrealized loss position for less than twelve months.

The unrealized losses on investments in asset backed securities were generally caused by changes in required yields by investors for these types of securities and changes in interest rates. All of the Bank’s securities remain investment grade with the exception of one security that has a par value of $250,000. The one security below investment grade has been separately evaluated and management has determined it is not expected to incur a credit loss. An allowance for credit loss will not be recorded because the company continues to perform financially and the Bank expects to realize the full principal and interest upon final maturity. The Bank continues to monitor all its securities for changes in credit rating or other indications of credit deterioration. Management has concluded the decline in fair value is attributable to changes in short-term interest rates, market shifts of the Treasury yield curve and other variable market and economic conditions including the COVID-19 pandemic.

Management further concluded that unrealized losses did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments, the portfolio consists primarily of debt securities with non-contingent contractual cash flows, and full realization of the principal balance is expected upon final maturity. The Bank has no specific plans to sell any of its securities in an unrealized loss position, is not anticipating it will be required to sell these securities prior to full recovery, and has the intent and ability to hold the securities until it receives full recovery, which could be at the final maturity or prior to maturity for investments with a make-whole call provision. For the reasons described above, the Bank determined none of the individual unrealized losses from 2021 will result in a credit loss and the Bank did not record an allowance for credit losses in 2021, with respect to such securities.

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:

	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Available-for-sale:						
Government agencies	$ 26,608	$ (383)	$12,415	$ (579)	$39,023	$ (962)
Mortgage-backed securities - residential	6,699	(183)	-	-	6,699	(183)
Corporate debt	4,025	(69)	1,085	(49)	5,110	(118)
Total available-for-sale	37,332	(635)	13,500	(628)	50,832	(1,263)
Total investment securities	$ 37,332	$ (635)	$13,500	$ (628)	$50,832	$ (1,263)

	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Available-for-sale:						
Government agencies	$ 12,911	$ (83)	$ -	$ -	$12,911	$ (83)
Corporate debt	1,384	(19)	-	-	1,384	(19)
Total available-for-sale	14,295	(102)	-	-	14,295	(102)
Total investment securities	$ 14,295	$ (102)	$ -	$ -	$14,295	$ (102)

The amortized cost and estimated fair value of investment securities at December 31, 2021 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available-for-Sale Amortized Cost	Fair Value
Within one year	$ 1,003	$ 1,013
After one year through five years	9,125	9,516
After five years through ten years	12,282	12,245
After ten years	36,986	36,097
	59,396	58,871
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	10,506	10,496
	$ 69,902	$ 69,367

Investment securities with amortized costs totaling $6,996,000 and $5,000,000 and estimated fair values totaling $6,825,000 and $5,000,000 were pledged to secure public deposits and represent 10% of the investment portfolio at December 31, 2021 and 2020, respectively.

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	December 31, 2021	December 31, 2020
Commercial & agricultural (1)	$ 144,969	$ 191,762
Real estate - commercial	504,891	420,384
Real estate - construction and land	67,427	35,444
Real estate - single family	65,590	60,633
Real estate - multifamily	50,395	46,574
Consumer & lease financing	44	24
	833,316	754,821
Allowance for credit losses (2)	(12,329)	(8,882)
	$ 820,987	$ 745,939

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $16,957 as of December 31, 2021 and $69,583 as of December 31, 2020.

(2) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.

The following is a discussion of the risks across each loan portfolio segment:

Commercial and Agricultural Loans – Commercial and agricultural credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, farmland, or other projects. The majority of these borrowers are customers doing business within the Bank’s geographic locations. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial and agricultural loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrowers. The cash flows of borrowers may not occur as expected, or the collateral securing these loans may fluctuate in value. A weakened economy, and the resulting decrease in consumer or business spending, may also have an impact on the credit quality of commercial and agricultural loans.

In April 2020, the Bank began participating in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the SBA paid the Bank a fee of 1%-5% depending on the loan amount, which was netted with loan origination costs and accreted/amortized into interest income using the effective yield method over the contractual life of each loan. The recognition of fees and costs is accelerated when the SBA forgives the loan and/or the loan is paid off prior to maturity. PPP loans are fully guaranteed by the SBA and have virtually no risk of loss. The Bank expects the vast majority of the PPP loans to be fully forgiven by the SBA.

Commercial and Multifamily Real Estate Loans – Commercial and multifamily real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market.

Construction and Land Real Estate Loans – Construction and land real estate loans are extended to qualified commercial and individual customers and are underwritten and secured by the assets of the company or individual. Commercial construction credits are generally secured with personal guarantees of the business owner. Credits are underwritten to meet the general credit policy criteria for current and projected cash flow coverage and loan-to-value. Both types of credit are generally written as construction to permanent loans with terms consistent with policy and property type.

Construction loans are done in California and Arizona with a majority under the SBA 7(a) or U.S. Department of Agriculture (USDA) loan guarantee programs. The majority of land real estate loans are with customers doing business within the Bank’s geographic region. Repayment of construction loans is largely dependent on the ultimate success of the project and can be impacted by the inherent volatility in real estate values, delays due to weather, and labor or material shortages.

Single Family Real Estate Loans – Single family residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed up to 30 years, and in most cases, are extended to borrowers to finance their primary residence. Real estate market values at the time of origination directly affect the amount of credit extended, and in the event of default, subsequent changes in these values may impact the severity of losses. Additionally, commercial loans may be categorized as Single Family Residential if the loan is secured by a mortgage on a home. Commercial loans categorized as Single Family Residential are underwritten as described in Commercial and Agricultural Loans section above and have terms such as interest rates and maturities as a standard Commercial Loan.

Consumer and Lease Financing Loans – The bank is no longer involved in consumer lending of this type. However, the bank has a small legacy portfolio. Consumer and lease financing loans are primarily comprised of loans made directly to consumers. These loans have a specific underwriting matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship to the borrower. Consumer and lease financing lending uses risk-based pricing in the underwriting process. Consumer and lease financing loans are impacted by factors that impact consumers’ ability to repay the loans, such as unemployment rates.

Changes in the allocation of allowance for credit losses by loan class for the years ended December 31, 2021, 2020 and 2019 are as follows:

	Year Ended December 31, 2021					
(in thousands)	Balance at December 31, 2020	Impact of CECL Adoption (1)	Provision (reversal) (1)	Charge-offs	Recoveries	Balance at December 31, 2021
Commercial & agricultural	$ 989	$ 202	$ (274)	$ (133)	$ 36	$ 820
Real estate - commercial	4,942	974	(748)	-	-	5,168
Real estate - construction and land	1,292	751	2,542	-	-	4,585
Real estate - single family	404	119	167	-	-	690
Real estate - multifamily	599	204	113	-	-	916
Consumer, lease financing & other	1	-	149	-	-	150
Unallocated	655	-	(655)	-	-	-
Total	$ 8,882	$ 2,250	$ 1,294	$ (133)	$ 36	$ 12,329

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.

	Year Ended December 31, 2020				
(in thousands)	Balance at December 31, 2019	Provision (reversal) (1)	Charge-offs	Recoveries	Balance at December 31, 2020
Commercial & agricultural	$ 887	$ 89	$ (20)	$ 33	$ 989
Real estate - commercial	1,976	2,966	-	-	4,942
Real estate - construction and land	1,602	(310)	-	-	1,292
Real estate - single family	323	81	-	-	404
Real estate - multifamily	510	89	-	-	599
Consumer & lease financing	2	(1)	-	-	1
Unallocated	1,469	(814)	-	-	655
Total	$ 6,769	$ 2,100	$ (20)	$ 33	$ 8,882

	Year Ended December 31, 2019				
(in thousands)	Balance at December 31, 2018	Provision (reversal) (1)	Charge-offs	Recoveries	Balance at December 31, 2019
Commercial & agricultural	$ 904	$ (57)	$ -	$ 40	$ 887
Real estate - commercial	2,830	(854)	-	-	1,976
Real estate - construction and land	705	897	-	-	1,602
Real estate - single family	684	(361)	-	-	323
Real estate - multifamily	308	202	-	-	510
Consumer & lease financing	6	(4)	-	-	2
Unallocated	592	877	-	-	1,469
Total	$ 6,029	$ 700	$ -	$ 40	$ 6,769

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.

The following table presents the amortized cost basis of collateral dependent loans by class of loans and by collateral type as of December 31, 2021 and 2020:

	December 31, 2021							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses (1)
Farmland	$ 132	$ -	$ -	$ -	$ -	$ -	$ 132	$ -
SFR	-	-	-	915	-	-	915	-
UCC Blanket	380	-	-	-	-	-	380	-
Warehouse	-	1,289	-	-	-	-	1,289	-
Total collateral dependent loans	**$ 512**	**$ 1,289**	**$ -**	**$ 915**	**$ -**	**$ -**	**$ 2,716**	**$ -**

	December 31, 2020							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Loan Losses (1)
Farmland	$ 146	$ -	$ -	$ -	$ -	$ -	$ 146	$ -
SFR	-	-	-	940	-	-	940	-
UCC Blanket	417	-	-	-	-	-	417	326
Warehouse	-	1,103	-	-	-	-	1,103	-
Total collateral dependent loans	**$ 563**	**$ 1,103**	**$ -**	**$ 940**	**$ -**	**$ -**	**$ 2,606**	**$ 326**

(1) Allowance in 2021 reported using current expected credit loss ("CECL") method, all 2020 and prior periods' allowance are reported in accordance with previous GAAP using the incurred loss method.

The following table presents the balance in the allowance for loan losses and loan balances by class and based on impairment method as of December 31, 2020:

	December 31, 2020					
	Allowance for Loan Losses			Loans		
(in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ 326	$ 663	$ 989	$ 563	$ 191,199	$ 191,762
Real estate - commercial	-	4,942	$ 4,942	1,103	419,281	420,384
Real estate - construction and land	-	1,292	$ 1,292	-	35,444	35,444
Real estate - single family	-	404	$ 404	940	59,693	60,633
Real estate - multifamily	-	599	$ 599	-	46,574	46,574
Consumer & lease financing	-	1	$ 1	-	24	24
Unallocated	-	655	$ 655	-	-	-
Total	$ 326	$ 8,556	$ 8,882	$ 2,606	$ 752,215	$ 754,821

Accrued interest receivable for the total loan portfolio was $2,611,000 and $4,005,000 as of December 31, 2021 and 2020. Net deferred loan costs (fees) were $39,000 and $(1,931,000) as of December 31, 2021 and 2020. The decrease in interest receivable and net deferred loan fees are attributed to SBA loan forgiveness payments received on PPP loans and the collection of interest on previous loan modifications converting back to regularly scheduled payment terms.

Salaries and employee benefits totaling $3,539,000, $3,417,000 and $2,138,000 have been deferred as loan origination costs for the years ended December 31, 2021, 2020 and 2019, respectively.

The following table presents the interest recognized on collateral dependent loans as of December 31, 2021 and December 31, 2020:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
December 31, 2021							
Interest income recognized on collateral dependent loans during the year ended December 31, 2021	25	60	-	62	-	-	147
December 31, 2020							
Interest income recognized on impaired loans during the year ended December 31, 2020	27	72	-	64	-	-	163

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of December 31, 2021 and 2020:

	December 31, 2021				December 31, 2020			
(in thousands)	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 114	$ -	$ 114	$ 165	$ 114	$ -	$ 114	$ -
Real estate - commercial	208	-	208	-	150	-	150	-
Real estate - construction and land	-	-	-	-	-	-	-	-
Real estate - single family	-	-	-	-	-	-	-	-
Real estate - multifamily	-	-	-	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-	-	-	-
Total	$ 322	$ -	$ 322	$ 165	$ 264	$ -	$ 264	$ -

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2021 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ 21	$ 279	$ 300	$ 144,669	$ 144,969
Real estate - commercial	-	-	208	208	504,683	504,891
Real estate - construction and land	-	-	-	-	67,427	67,427
Real estate - single family	-	-	-	-	65,590	65,590
Real estate - multifamily	-	-	-	-	50,395	50,395
Consumer & lease financing	-	-	-	-	44	44
Total	$ -	$ 21	$ 487	$ 508	$ 832,808	$ 833,316

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2020 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ 114	$ -	$ 114	$ 191,648	$ 191,762
Real estate - commercial	-	150	-	150	420,234	420,384
Real estate - construction and land	-	-	-	-	35,444	35,444
Real estate - single family	-	-	-	-	60,633	60,633
Real estate - multifamily	-	-	-	-	46,574	46,574
Consumer & lease financing	-	-	-	-	24	24
Total	$ -	$ 264	$ -	$ 264	$ 754,557	$ 754,821

A loan is considered past due if a scheduled payment of interest or principal that is due is unpaid for 30 days or more.

Troubled Debt Restructurings

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). At December 31, 2021 and 2020, there were 4 loans modified as TDR that totaled $2,128,000 and $2,189,000 which are included in the impaired loan disclosures above. None of the TDRs were included in nonperforming loans at December 31, 2021 or 2020. There were no specific loss allocations with respect to TDRs as of December 31, 2021 and 2020.

For the year ended December 31, 2021, there were no new loans that were modified as troubled debt restructurings.

No additional allowances or charge-offs resulted from loans modified as troubled debt restructurings during the years ended December 31, 2021 and 2020. There were no loans modified as TDRs for which there was a payment default within twelve months following the modification during the years ended December 31, 2021 and 2020. A loan is considered to be in payment default once it is 90 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.

The terms of certain other loans were modified during the year ended December 31, 2021, that did not meet the definition of a TDR. These loans have a total recorded investment as of December 31, 2021, of $63,689,000. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant. To determine whether a borrower is experiencing a 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 policies.

On March 27, 2020, Section 4013 "Temporary Relief From Troubled Debt Restructurings" of the CARES Act was signed into law. Section 4013 provides banks the option to temporarily suspend certain requirements under GAAP related to TDRs for a limited period of time to account for the effects of COVID-19. This applied to modifications of loans that were not more than 30 days past due as of December 31, 2019 and that occur beginning on March 1, 2020, until the earlier of 60 days after the COVID-19 national emergency is terminated or as of December 31, 2020. Section 541 of the Consolidated Appropriations Act, 2021 was signed into law on December 27, 2020, and extends the provisions in Section 4013 of the CARES Act to January 1, 2022. Since the onset of the COVID pandemic, the Bank processed credit relief requests for 148 loans totaling $206,649,000. As of December 31, 2021, all deferred loans are now current and customers are paying on those loans as agreed, in accordance with the original loan terms.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $250,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

SPECIAL MENTION- Loans in this category are considered "criticized" from a regulatory point of view but are not considered "classified" until the risk classification becomes substandard or worse. Loans in this category represent above average risk and potential weakness which may, if not corrected, weaken the loan and threaten repayment at some future date.

SUBSTANDARD- Loans in this category have well defined weakness that jeopardize full repayment of the debt, although loss does not seem likely. Loss potential does not have to exist in individual loans in the Substandard classification but will be apparent in the aggregate. Typically, these loans have not met repayment plans as agreed. The primary source of repayment may have failed to materialize; repayment may be dependent on collateral liquidation or other secondary sources. Bankrupt borrowers and those with continuously past due payments are considered substandard.

DOUBTFUL- Loans in this category have all the characteristics of substandard loans with the added weakness that payment in full or liquidation in full is highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the strengthening of the loan, its classification as an estimated loss is deferred until the amount of the loss may be more accurately determined.

PASS- Loans not meeting any of the three criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on analysis performed as of December 31, 2020 , the risk category of loans by class of loans is as follows:

2020 (in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	$176,365	$ 11,640	$ 3,643	$ 114	$ 191,762
Real estate - commercial	416,126	3,168	1,090	-	420,384
Real estate - construction and land	34,680	-	764	-	35,444
Real estate - single family	60,468	-	165	-	60,633
Real estate - multifamily	46,574	-	-	-	46,574
Consumer & lease financing	24	-	-	-	24
Total	$ 734,237	$ 14,808	$ 5,662	$ 114	$ 754,821

The following tables present the Bank's portfolio by grade, presented by year of origination, as of December 31, 2021. Revolving loans that are converted to term loans are treated as new originations in the table below:

(in thousands)	December 31, 2021 Term Loans by Year of Origination 2021	2020	2019	2018	Prior	Revolving Loans	Total Loans
Commercial & agricultural							
Risk Rating							
Pass	$ 28,076	$ 15,621	$ 21,371	$ 5,196	$ 31,409	$ 17,872	$ 119,545
Special Mention	-	570	108	8,046	8,213	4,800	21,737
Substandard	-	-	-	-	3,573	-	3,573
Doubtful	-	-	-	-	-	114	114
Total Commercial & agricultural	$ 28,076	$ 16,191	$ 21,479	$ 13,242	$ 43,195	$ 22,786	$ 144,969
Real estate - commercial							
Risk Rating							
Pass	$ 136,972	$ 96,085	$ 41,651	$ 65,509	$ 132,965	$ 9,612	$ 482,794
Special Mention	-	9,238	7,041	-	4,693	-	20,972
Substandard	-	-	166	-	909	50	1,125
Doubtful	-	-	-	-	-	-	-
Total Real estate - commercial	$ 136,972	$ 105,323	$ 48,858	$ 65,509	$ 138,567	$ 9,662	$ 504,891
Real estate - construction and land							
Risk Rating							
Pass	$ 32,372	$ 19,907	$ 4,565	$ 900	$ 8,919	$ -	$ 66,663
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	764	-	764
Doubtful	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 32,372	$ 19,907	$ 4,565	$ 900	$ 9,683	$ -	$ 67,427
Real estate - single family							
Risk Rating							
Pass	$ 10,500	$ 25,560	$ 8,004	$ 3,430	$ 13,905	$ 4,034	$ 65,433
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	157	-	157
Doubtful	-	-	-	-	-	-	-
Total Real estate - single family	$ 10,500	$ 25,560	$ 8,004	$ 3,430	$ 14,062	$ 4,034	$ 65,590
Real estate - multifamily							
Risk Rating							
Pass	$ 5,584	$ 13,332	$ 10,255	$ 6,920	$ 11,693	$ 2,611	$ 50,395
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Real estate - multifamily	$ 5,584	$ 13,332	$ 10,255	$ 6,920	$ 11,693	$ 2,611	$ 50,395
Consumer & lease financing							
Risk Rating							
Pass	$ 43	$ -	$ -	$ -	$ 1	$ -	$ 44
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Consumer & lease financing	$ 43	$ -	$ -	$ -	$ 1	$ -	$ 44

Loans totaling $432,736,000 and $409,945,000 were pledged to secure borrowings with the Federal Home Loan Bank and the Federal Reserve Bank at December 31, 2021 and 2020, respectively (see Note 8).

4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
(in thousands)	2021	2020
Land	$ 1,184	$ 1,184
Building	7,823	7,766
Furniture, fixtures and equipment	3,661	3,643
Leasehold improvements	866	866
	13,534	13,459
Less accumulated depreciation and amortization	(7,857)	(7,465)
	$ 5,677	$ 5,994

Depreciation and amortization included in occupancy and equipment expense totaled $392,000, $419,000 and $395,000 for the years ended December 31, 2021, 2020 and 2019, respectively.

5. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plan or equipment for a period of time in exchange for consideration. On January 1, 2019, the Bank adopted ASU No. 2016-02 "Leases" (Topic 842) and all subsequent ASUs that modified Topic 842. For the Bank, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Bank is the lessee.

The types of leases where the Bank is a lessee are real estate properties for four branches located in Healdsburg, Rohnert Park, Petaluma and Santa Rosa, office spaces in Santa Rosa, a lending office in Roseville and photocopier equipment. These leases have variable terms maturing prior to 2025. The Bank's leases do not include residual value guarantees or covenants. A majority of the leases are classified as operating leases and were previously not recognized on the Bank's balance sheets. With the adoption of Topic 842, operating lease agreements are required to be recognized on the balance sheets as a right-of-use ("ROU") asset and a corresponding lease liability. The Bank has elected to account for any non-lease components in its real estate leases as part of the associated lease component. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term.

The calculated amount of the ROU assets and lease liabilities in the table below are calculated by discounting the minimum contractual balance due of all future payments through the end of the current term to present value. When the Bank determines exercising the renewal option for any lease agreement is reasonably certain, it will include the extended term in the calculation of the ROU asset and lease liability.

As it pertains to the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank uses its incremental borrowing rate in calculating the discounted present value.

Leases originated by the Bank are recorded as rental income and included in the other non-interest income category. Rental income is recognized in the month in which the revenue covers. Leasehold improvements and operational expenses associated with the rental proper are recorded separate from the income as an expense.

The following table represents the balance sheets classification of the Bank's ROU assets and lease liabilities. The Bank elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the balance sheet.

(in thousands)		December 31, 2021	December 31, 2020
Operating Leases	**Classification**		
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 1,180	$ 1,327
Lease liabilities	Accrued Int Payable & Other Liabilities	1,207	1,346
Financing Leases			
Lease right-of-use assets	Bank Premises & Equip	$ 25	$ 22
Lease liabilities	Accrued Int Payable & Other Liabilities	25	22

The following table represents lease costs for the years indicated.

	Year Ended December 31,		
(in thousands)	2021	2020	2019
Lease Costs			
Operating lease cost	$ 398	$ 386	$ 462
Financing lease cost			
Interest on lease liabilities	1	1	1
Amortization of right-of-use assets	16	13	14
Sublease income	(353)	(351)	(344)
Net lease cost	$ 62	$ 49	$ 133

	Year Ended	
(in thousands)	December 31, 2021	December 31, 2020
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 390	$ 379
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	16	13

	December 31, 2021
Weighted-average remaining lease term	
Operating leases	3.2 years
Financing leases	2.7 years
Weighted-average discount rate	
Operating leases	2.79%
Financing leases	2.87%

Future minimum payments for finance leases and operating leases as of December 31, 2021 were as follows:

(in thousands)

Twelve Months Ended:	Operating Leases	Financing Leases
December 31, 2022	$ 400	$ 12
December 31, 2023	411	7
December 31, 2024	337	3
December 31, 2025	129	3
December 31, 2026	-	1
Thereafter	-	-
Total Future Minimum Lease Payments	1,277	26
Amounts Representing Interest	(70)	(1)
Present Value of Net Future Minimum Lease Payments	$ 1,207	$ 25

6. INTEREST-BEARING DEPOSITS

The aggregate amount of maturities of all time deposits is as follows:

Year Ending December 31,	(in thousands)
2022	$ 101,735
2023	43,129
2024	15,336
2025	29,973
2026	695
	$ 190,868

Wholesale brokered deposits included in deposits were $58,266,000 and $77,430,000 at December 31, 2021 and 2020. Deposits of $101,274,000 and $54,325,000 at December 31, 2021 and 2020 were through reciprocal deposit programs.

7. UNSECURED BORROWINGS

The Bank has a $15,000,000 Federal funds unsecured line of credit with a correspondent bank to cover any short or long-term borrowing needs. There were no borrowings outstanding under the Federal funds line of credit as of December 31, 2021 or 2020

8. SECURED BORROWINGS

The Bank maintains two secured lines of credit, one at the FHLB and another at the Federal Reserve Bank of San Francisco ("FRB"). As of December 31, 2021 and 2020, the Bank had an available secured borrowing capacity at the FRB of $67,456,000 and $71,500,000, respectively.

For the Bank's line at the FHLB, each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $432,736,000 and $409,945,000 of loans under a blanket lien arrangement at December 31, 2021 and 2020. Based on this collateral the Bank was eligible to borrow up to a total of $277,106,000 and $244,356,000 of which $213,414,000 and $190,856,000 was available for additional advances as of December 31, 2021 and 2020. Advance balances averaged $54,233,000 and $61,290,000 in 2021 and 2020.

Advances outstanding from the Federal Home Loan Bank were $48,500,000 at December 31, 2021, with maturities from October 2022 through February 2025 and fixed rates from 1.28% to 1.90%. Advances outstanding were $53,500,000 at December 31, 2020, with maturities from April 2021 through February 2025 and fixed rates from 0% to 1.90%.

At December 31, 2021, FHLB fixed rate advances are scheduled to mature as follows:

(in thousands)	Weighted Average Interest Rate	December 31, 2021
Due on or before December 31, 2022	1.71%	$ 7,500
Due on or before December 31, 2023	1.51%	$ 18,000
Due on or before December 31, 2024	1.87%	$ 5,000
Due on or before December 31, 2025	1.59%	$ 18,000
		$ 48,500

9. JUNIOR SUBORDINATED DEBT

On June 28, 2019 the Bank completed the private placement of $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes have a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes bear interest at a fixed rate of 6.0% per annum for the first half of the term and adjust to a floating rate tied to LIBOR beginning July 1, 2024. When LIBOR is discontinued, the index for the Notes will be replaced with a rate equal to the forward-looking term SOFR rate for a corresponding period. Interest is payable quarterly in arrears and due on March 31, June 30, September 30, and December 31 of each year through the maturity date. The Notes are reported net of any debt issuance cost which totaled $109,000 at December 31, 2021.

10. INCOME TAXES

The provision for income taxes for the years ended December 31, 2021, 2020 and 2019 consisted of the following:

(in thousands)

2021	Federal	State	Total
Current	$3,891	$2,203	$6,094
Deferred	26	62	88
Provision for income taxes	$3,917	$2,265	$6,182

2020	Federal	State	Total
Current	$3,203	$1,886	$5,089
Deferred	(403)	(265)	(668)
Provision for income taxes	$2,800	$1,621	$4,421

2019	Federal	State	Total
Current	$1,750	$1,186	$2,936
Deferred	(341)	(197)	(538)
Provision for income taxes	$1,409	$ 989	$2,398

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

	December 31,	
(in thousands)	2021	2020
Deferred tax assets:		
Allowance for credit losses	$ 3,820	$ 2,736
Mortgage servicing rights, net of discount	1,008	765
Future benefit of state tax deduction	465	396
Net unrealized losses on available-for-sale investment securities	158	-
Lease Liability	365	405
Other accruals	319	135
Total deferred tax assets	6,135	4,437
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(64)	(64)
Deferred loan costs	(2,491)	(1,475)
Net unrealized gain on available-for-sale investment securities	-	(479)
Prepaid expenses and other	(17)	(38)
Right of use assets	(357)	(399)
Bank premises and equipment	(594)	(594)
Total deferred tax liabilities	(3,523)	(3,049)
Net deferred tax assets	$ 2,612	$ 1,388

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Bank has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Bank.

On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2021, the Bank has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on our effective tax rate.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The significant items comprising these differences for the years ended December 31, 2021, 2020 and 2019 consisted of the following:

	2021		2020		2019	
(in thousands)	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	$ 4,385	21.0%	$ 3,137	21.0%	$ 1,864	21.0%
State franchise tax expense, net of Federal tax effect and other	1,797	8.6%	1,284	8.6%	738	8.3%
Impact of Solar Tax Credit	-		-		(204)	-2.3%
Total income tax expense	$ 6,182	29.6%	$ 4,421	29.6%	$ 2,398	27.0%

The Bank had no unrecognized tax benefits and recorded no interest and penalties for the years ended December 31, 2021 and 2020. The Bank does not expect a significant change in unrecognized tax benefits in the next twelve months. The Bank is subject to U.S. Federal income tax as well as income tax of the State of California. The Bank is no longer subject to examination by Federal taxing authorities for tax years 2017 and prior and by California taxing authorities for tax years 2016 and prior.

11. COMMITMENTS AND CONTINGENCIES

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits less vault cash. The Bank had no reserve requirement as of December 31, 2021 and 2020.

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 in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets.

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

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	December 31,			
(in thousands)	2021		2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 2,000	$ 6,893	$ -	$ 780
Unused lines of credit	6,913	146,835	6,760	96,408
Standby letters of credit	1,642	2,591	75	334

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client 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 clients. The fair value of the liability related to these 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.

At December 31, 2021, real estate loan commitments represent 63% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Commercial loan commitments represent approximately 37% of total commitments and are generally secured by collateral other than real estate or are unsecured.

Concentrations of Credit Risk

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's credit policy requires sufficient collateral be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral consists primarily of real estate, accounts receivable, inventory and other financial instruments.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements, and $2,055,000 in deposits were uninsured at December 31, 2021.

Contingencies

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

12. SHAREHOLDERS' EQUITY

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. The Bank met all its capital adequacy requirements as of December 31, 2021 and 2020.

At December 31, 2021, The Bank’s capital levels exceeded the minimums necessary to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 capital, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

The Bank elected not to include Accumulated Other Comprehensive Income in the regulatory capital calculations.

The Bank’s actual and required capital amounts and ratios consisted of the following:

(in thousands)	2021 Amount	2021 Ratio	2020 Amount	2020 Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 79,193	9.5%	$ 62,071	10.2%
Minimum requirement with capital conservation buffer (1)	$ 58,049	7.0%	$ 42,472	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 53,903	6.5%	$ 39,438	6.5%
Minimum regulatory requirement	$ 37,317	4.5%	$ 27,303	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 79,193	9.5%	$ 62,071	10.2%
Minimum requirement with capital conservation buffer (1)	$ 70,488	8.5%	$ 51,573	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 66,342	8.0%	$ 48,539	8.0%
Minimum regulatory requirement	$ 49,756	6.0%	$ 36,404	6.0%
Total Capital Ratio				
Summit State Bank	$ 95,481	11.5%	$ 74,986	12.4%
Minimum requirement with capital conservation buffer (1)	$ 87,073	10.5%	$ 63,708	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 82,927	10.0%	$ 60,674	10.0%
Minimum regulatory requirement	$ 66,342	8.0%	$ 48,539	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 79,193	8.7%	$ 62,071	9.3%
Minimum requirement for "Well-Capitalized" institution	$ 45,772	5.0%	$ 33,510	5.0%
Minimum regulatory requirement	$ 36,618	4.0%	$ 26,808	4.0%

(1) Includes 2.5% capital conservation buffer.

The adoption of CECL on January 1, 2021 resulted in a $2,250,000 increase to the Allowance and a $1,575,000 reduction to shareholders’ equity, net of $675,000 in taxes. The reduction in equity on January 1, 2021 had a minor reduction on the Bank’s capital ratios as of December 31, 2021.

For banking organizations that experience a reduction in retained earnings from the adoption of CECL, a Bank has the option to elect a phase-in approach for up to 3 years of the “day 1” adverse impact to regulatory capital. The Bank elected to fully phase-in the entire impact to regulatory capital on the first day of the adoption, January 1, 2021.

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any bank in any calendar year without approval of the California Department of Financial Protection and Innovation, 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. The cash dividends paid during 2021 were within such limits.

The Bank also issued a one-time 10% stock dividend that was paid on November 4, 2021 to shareholders of record as of the close of business on October 29, 2021. The Bank issued 607,659 shares as a result of the stock dividend, increasing its total shares outstanding to 6,684,759. All prior period average share and earnings per share calculations disclosed in this report have been retroactively adjusted to account for this stock dividend.

Stock-Based Compensation – Stock Options

In 2013 the Bank issued an Equity Incentive Plan approved by shareholders that permits the grant of up to 187,500 shares of stock. As of December 31, 2021, there were 187,500 shares available for future grants under the 2013 Plan.

In addition, the Bank has in the past granted stock options to employees. The stock options allow the holder to purchase a fixed number of the Bank's shares at an exercise price, which is generally the fair value of the Bank's stock on the grant date. The options are fully vested at December 31, 2021, and were issued with original terms of ten years, at which point they will expire if unexercised.

Stock-Based Compensation – Stock Appreciation Rights

The Bank has granted Stock Appreciation Rights ("SARs") in 2020 and 2019 to key employees and directors. SARs provide long-term incentives to the employees and directors by providing a cash payment of the difference between the market price of the Bank's common stock at time of exercise and the price at the grant date. SARs expire in ten years and typically has an annual vesting of 20% for the first five years, unless otherwise approved by the Board of Directors. SARs granted to the Board of Directors typically have immediate vesting in their entirety or partially vest immediately and annual vesting for the next two years; these SARs also have an expiration of 10 years. The compensation expense is accrued quarterly as a liability.

The fair value of each vested SAR award is estimated quarterly using a closed form option valuation (Black-Scholes) model. The output of this valuation is updated quarterly and based on the Bank's actual historical stock price volatility, days to expirations, strike price, the current dividend yield, and the discount rate based on the current U.S. Treasury yield curve that matches the remaining term of each tranche.

For the years ended December 31, 2021, 2020 and 2019, there was $341,000, $25,000, and $76,000 in compensation costs related to vested stock options and SARs granted. As of December 31, 2021, 2020 and 2019, there was $404,000, $326,000, and $138,000 of total unrecognized compensation costs related to non-vested stock options and SARs granted. At December 31, 2021, there were no vested options outstanding and 7,500 options were exercised during the year at an exercise price of $4.40.

Information related to the stock option plan follows:

	2021	2020	2019
Intrinsic value of options exercised	$ 84,525	$ -	$ 24,000
Cash received from option exercises	33,000	-	14,000
Tax benefit realized from option exercises	25,000	-	7,000

A summary of the activity in the stock option plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Year Ended December 31, 2021				
Outstanding at beginning of the year	7,500	$ 4.40		
Granted	-	-		
Exercised	(7,500)	4.40		
Forfeited or expired	-	-		
Outstanding at end of the year	-	$ -	0 years	$ -
Vested or expected to vest	-	$ -	0 years	$ -
Exercisable at end of year	-	$ -	0 years	$ -
Year Ended December 31, 2020				
Outstanding at beginning of the year	7,500	$ 4.40		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	7,500	$ 4.40	1 years	$ 68,000
Vested or expected to vest	7,500	$ 4.40	1 years	$ 68,000
Exercisable at end of year	7,500	$ 4.40	1 years	$ 68,000
Year Ended December 31, 2019				
Outstanding at beginning of the year	10,625	$ 4.40		
Granted	-	-		
Exercised	(3,125)	4.40		
Forfeited or expired	-	-		
Outstanding at end of the year	7,500	$ 4.40	2 years	$ 64,000
Vested or expected to vest	7,500	$ 4.40	2 years	$ 64,000
Exercisable at end of year	7,500	$ 4.40	2 years	$ 64,000

A summary of the activity for the SARs agreements follows:

	Shares (1)	Weighted Average Exercise Price (1)	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Year Ended December 31, 2021				
Outstanding at beginning of the year	289,000	$ 12.28		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	289,000	$ 12.28	7.3 years	$ 1,160,405
Vested or expected to vest	289,000	$ 12.28	7.3 years	$ 1,160,405
Exercisable at end of year	209,000	$ 11.98	6.9 years	$ 756,153
Year Ended December 31, 2020				
Outstanding at beginning of the year	219,700	$ 12.64		
Granted	69,300	11.14		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	289,000	$ 12.28	8.3 years	$ 685,087
Vested or expected to vest	289,000	$ 12.28	8.3 years	$ 685,087
Exercisable at end of year	155,834	$ 12.31	7.7 years	$ 276,574
Year Ended December 31, 2019				
Outstanding at beginning of the year	135,000	$ 13.55		
Granted	84,700	11.19		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	219,700	$ 12.64	8.9 years	$ 423,206
Vested or expected to vest	219,700	$ 12.64	8.9 years	$ 423,206
Exercisable at end of year	100,467	$ 12.68	8.4 years	$ 230,363

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

There were no SARs granted in 2021. The weighted average fair value of SARs granted in 2020 and 2019 was $3.01 and $0.32, respectively. Weighted average assumptions used in the determination of the fair value of the SAR grants were as follows:

	2021	2020	2019
Expected life in years	-	10	10
Expected dividend yield	-	3.92%	3.70%
Expected price volatility	-	29.99%	6.28%
Risk-free interest rate	-	0.93%	1.89%

As of December 31, 2021 and 2020, the Bank had a liability recorded of $756,000 and $297,000 related to outstanding SARs.

13. EMPLOYEE BENEFIT PLAN

401(k) Employee Savings Plan

The Bank offers a 401(k) matching contribution Employee Savings Plan (the "Plan"). The Plan is qualified under the Internal Revenue Code (Code), whereby participants may defer a percentage of their compensation, but not in excess of the maximum allowed under the Code.

Under the Plan, participating employees may make a pre-tax contribution of 1% to 80% of their eligible compensation (within federal limits) to the Plan. Employees over the age of 50 may elect to make catch-up contributions ($6,500 for 2021, indexed). The Bank makes matching contributions on behalf of the participants up to 5% of their eligible compensation, or $1.00 match for every $1.00 the employee contributes.

An employee becomes eligible to enroll in the Plan upon completing at least 250 hours of employment in a three consecutive month period. Initial eligibility is measured from the employee's date of hire, and subsequent eligibility is measured over three-month periods and has a 2-year cliff vesting schedule. The Bank will begin making matching contributions on the first of the month following the completion of least 1,000 hours of employment in a 12 consecutive month period.

Contributions by the Bank totaled $430,000, $336,000 and $209,000 for the years ended December 31, 2021, 2020 and 2019, respectively.

14. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. Other changes are the result of changes in related parties during the year. The following is a summary of the aggregate activity involving related party borrowers. These loans are made at arm's length and are consistent with what other borrowers receive.

(in thousands)	2021	2020	2019
Balance, January 1	$ 4,046	$ 10,952	$ 8,052
New borrowings	534	4,703	5,278
Amounts repaid	(707)	(11,609)	(2,378)
Balance, December 31	$ 3,873	$ 4,046	$ 10,952
Undisbursed commitments to related parties	$ 500	$ 475	$ 512

At December 31, 2021, 2020 and 2019, deposits of related parties amounted to $2,344,000, $1,441,000 and $6,465,000 respectively.

15. FAIR VALUE

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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 reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by a third-party vendor who uses matrix pricing, which is a mathematical technique widely used in the industry to value 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). Management periodically reviews the pricing information received from third-party pricing services and tests those prices against other sources to validate the reported fair values.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no active 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.

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's balance sheets at December 31, 2021 and 2020:

	December 31, 2021			December 31, 2020		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 40,699	$ 40,699	Level 1	$ 30,826	$ 30,826	Level 1
Investment securities - available-for-sale	69,367	69,367	Level 2	67,952	67,952	Level 2
Loans, net of allowance	820,987	830,430	Level 3	745,939	752,412	Level 3
Investment in FHLB stock	4,320	4,320	Level 2	3,429	3,429	Level 2
Accrued interest receivable	2,787	2,787	Level 1	3,933	3,933	Level 1
Financial liabilities:						
Deposits	$811,600	$ 811,535	Level 2	$726,295	$727,930	Level 2
FHLB advances	48,500	49,200	Level 2	53,500	55,357	Level 2
Junior subordinated debt	5,891	4,286	Level 3	5,876	4,271	Level 3
Accrued interest payable	72	72	Level 1	314	314	Level 1

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at December 31, 2021 (In thousands)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 39,023	$ -	$ 39,023	$ -
Mortgage-backed securities - residential	10,496	-	10,496	-
Corporate debt	19,848	-	19,848	-
Total securities available-for-sale	$ 69,367	$ -	$ 69,367	$ -

		Fair Value Measurements at December 31, 2020 (In thousands)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 41,023	$ -	$ 41,023	$ -
Mortgage-backed securities - residential	6,817	-	6,817	-
Corporate debt	20,112	-	20,112	-
Total securities available-for-sale	$ 67,952	$ -	$ 67,952	$ -

No liabilities were measured at fair value on a recurring basis at December 31, 2021 or 2020.

Changes in the fair value of available for sale securities are recognized in other comprehensive income.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Bank's quarterly valuation process. There were no transfers between any levels during 2021, 2020 or 2019.

Assets and Liabilities Measured on a Non-Recurring Basis

No assets or liabilities were measured at fair value on a non-recurring basis at December 31, 2021 or 2020.

16. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including these estimates inherent in the process of preparing the financial statements. The Bank's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Bank has evaluated subsequent events after December 31, 2021 for potential recognition and disclosure matters.

On January 24, 2022, the Board of Directors declared a $0.12 per common share cash dividend to shareholders of record at the close of business on February 10, 2022, that was paid on February 17, 2022.

17. COVID-19 PANDEMIC

On March 11, 2020, the outbreak of COVID-19 was recognized as a pandemic by the World Health Organization. On March 13, 2020, the President of the United States declared the COVID-19 pandemic a national emergency. The spread of COVID-19 has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that the Bank serves. Governmental responses to the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements, observe social distancing and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, have resulted in rapid decreases in commercial and consumer activity, temporary or permanent closures of many businesses that have led to a loss of revenues and a rapid increase in unemployment, material decreases in business valuations, disrupted global supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act contains provisions to assist individuals and businesses, which included a $349 billion loan program administered through the SBA referred to as the PPP. Congress approved an expansion of the PPP and an additional $310 billion was made available on April 27, 2020. The SBA also began accepting Second Draw PPP loans beginning January 13, 2021 for businesses that meet a modified criterion including 300 or fewer employees and can demonstrate a 25% reduction in gross receipts in Q4 2020. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to qualifications and eligibility criteria.

On March 22, 2020, the U.S. banking agencies issued an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The statement describes accounting for COVID-19-related loan modifications, including clarifying the interaction between current accounting rules and the temporary relief provided by the CARES Act. The statement also encourages institutions to work constructively with borrowers affected by COVID-19 and states the agencies will not criticize supervised institutions for prudent loan modifications. Both the CARES Act and the interagency statement provide relief from the accounting and reporting implications of troubled debt restructurings. The Bank provided payment relief to borrowers with hardship requests. Cumulatively through December 31, 2021, the Bank modified principal and interest payments on a total of 148 loans totaling $206,649,000 due to the COVID-19 pandemic. As of

December 31, 2021, all deferred loans are current and customers are paying on those loans as agreed, in accordance with the original terms.

ITEM 8A. CONTROLS AND PROCEDURES

Restatement of Previously Issued Financial Statements

Disclosure Controls and Procedures

The Bank, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, reevaluated the effectiveness of the design and operation of the Bank's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2021.

Based on such reevaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, due to the identification of a material weakness in our internal control over financial reporting, as further described below, our disclosure controls and procedures were not effective as of December 31, 2021.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement in our annual or interim financial statements will not be prevented or detected on a timely basis.

A financial reporting control did not operate as designed resulting in the misclassification of cash flows with respect to "Proceeds from sales of loans other than loans originated for resale" as operating activities rather than investment activities, resulting in the Bank's restatement of its annual consolidated financial statements for the year ended December 31, 2021, and the unaudited interim financial statements for the periods ended March 31, 2022 and June 30, 2022. Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. Management determined this condition represents a material weakness. Additionally, this material weakness could result in further misstatements of the classification of cash flows for "Proceeds from sales of loans other than loans originated for resale" that would result in a material misstatement to the Bank's annual or interim consolidated financial statements that would not be prevented or detected.

Remediation Plan and Status

In response to the identified material weakness, management has revised its quarterly reporting process to include additional reviews by an outside firm that has the technical skills, knowledge, and experience to verify all reclassifications within the Bank's quarterly financial statements. A summary of all reclassifications will be provided to the Bank's Audit Committee quarterly and include a summary of who inquired about the change and what specific accounting guidance or rule the change applies to in order to ensure proper interpretation and reporting has taken place.

We believe the measures described above will remediate this material weakness and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures, and we may take additional measures to address control deficiencies, or we may modify, or in appropriate circumstances not complete, certain of the remediation measures described above. This material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

There were no changes in the Bank's internal control over financial reporting identified in connection with management's evaluation that occurred during the year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting. However, as described above, management did implement changes in internal controls over financial reporting during the fourth quarter of 2022 while preparing the interim financial information for the third quarter, designed to remediate a material weakness due to reclassifications within its financial statements.

PART IV

ITEM 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. *Financial Statements*
The following documents are filed as part of this report:

Report of Independent Registered Public Accounting Firm
Balance Sheets at December 31, 2021 and 2020
Statements of Income for each of the years in the three-year period ended December 31, 2021
Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2021
Statements of Changes in Shareholders' Equity for each of the years in the three-year period ended December 31, 2021
Statements of Cash Flows for each of the years in the three-year period ended December 31, 2021
Notes to Financial Statements

2. *Financial Statement Schedules*
Not applicable
3. *Exhibits*
(b) *Exhibits Required by Item 601 of Regulation S-K*

EXHIBIT NO.	EXHIBIT
3.1	Articles of Incorporation of the registrant (1) (2) (3)
3.2	Amendment of Articles of Incorporation dated January 23, 2017 (4)
3.3	By-laws of the registrant (5)
4.1	Specimen of the registrant's common stock certificate (1) (2) (3)
4.2	The total amount of the registrant's long-term debt does not exceed 10 percent of the total assets of the registrant. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant agrees to file any instrument with respect to such long-term debt upon request of the FDIC.
4.3	Description of securities registered under Section 12 of the Exchange Act Incorporated by reference to Exhibit 4.3 to Summit State Bank's Form 10-K filed with the FDIC on March 16, 2020
10.1	2007 Stock Option Plan (6)
10.2	2013 Equity Incentive Plan (7)
10.3	Change in Control Agreement with Genie Del Secco (8)
10.4	Change in Control Agreement with Brandy Seppi (9)
10.5	Change in Control Agreement with Brian Reed (10)
10.6	Change in Control Agreement with Camille Kazarian (11)
10.7	Cash Incentive Bonus Plan (12)
10.8	Stock Appreciation Rights Agreement with Directors and Officers (13)
14.1	Code of Ethics (14)
21.1	
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 certifications

1. Incorporated by reference from Summit State Bank's Form 10 filed with the FDIC on June 19, 2006.

2. Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 1 filed with the FDIC on July 12, 2006.
3. Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 2 filed with the FDIC on July 13, 2006.
4. Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 23, 2017.
5. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on January 24, 2018.
6. Incorporated by reference from Summit State Bank's Definitive Proxy Statement filed with the FDIC on April 27, 2007.
7. Incorporated by reference from Summit State Bank's Definitive Proxy Statement filed with the FDIC on June 10, 2013.
8. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on January 18, 2018.
9. Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 12, 2015.
10. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on February 14, 2017.
11. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on December 4, 2018.
12. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on April 22, 2016.
13. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on December 14, 2016, December 22, 2017, August 2, 2018 and December 18, 2018.
14. Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 28, 2007.

(c) *Additional Financial Statements*

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Summit State Bank

By *ls/ Camille D. Kazarian* November 21, 2022

Camille D. Kazarian
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Brian J. Reed, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K/A of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: November 21, 2022

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Camille D. Kazarian, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K/A of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: November 21, 2022

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1
Certification pursuant to 18 U.S.C. §1350

In connection with the annual report on Form 10-K/A of Summit State Bank (the Registrant) for the year ended December 31, 2021, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-K/A fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-K/A fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: November 21, 2022

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 21, 2022

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)