FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-K

[X] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2022

[ ] **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, 2022, the last business day of the registrant's most recently completed fiscal quarter, was approximately $101,791,000 (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 22, 2023 was 6,732,699.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2023 Annual Meeting of Shareholders to be filed within 120 days of the fiscal year ended December 31, 2022 are incorporated by reference into Part III.

SUMMIT STATE BANK
TABLE OF CONTENTS

PART I

Item 1. Business 4
Information about Summit State Bank 4
Services and Financial Products 6
Sources of Business 7
Competition 7
Our Address, Telephone Number and Internet Website 8
Regulation and Supervision 8
Employees 15
Item 1A. Risk Factors 15
Item 1B. Unresolved Staff Comments 25
Item 2. Properties 25
Item 3. Legal Proceedings 25
Item 4. Mine Safety Disclosures 25

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 26
Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations 26
Item 6A. Quantitative and Qualitative Disclosures about Market Risk 45
Item 7. Financial Statements and Supplementary Data 49
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 99
Item 8A. Controls and Procedures 99
Item 8B. Other Information 101
Item 8C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections 101

PART III

Item 9. Directors, Executive Officers and Corporate Governance 101
Item 10. Executive Compensation 101
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 101
Item 12. Certain Relationships and Related Transactions, and Director Independence 102
Item 13. Principal Accounting Fees and Services 102

PART IV

Item 14. Exhibits and Financial Statement Schedules 102
Item 15. Form 10-K Summary 103
Signatures 104
Exhibit Index 106

SUMMIT STATE BANK
ANNUAL REPORT ON FORM 10-K

PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes 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, economic impact caused by a pandemic and 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 report.

All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied, or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- the adverse impact of a pandemic and governmental responses to the pandemic on the Bank and its customers, employees and third-party service providers;
- adverse changes in the market for real estate, which serves as collateral the loans that we make;
- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital;
- changes in the interest rates and inflation;

- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;
- potential weakness of real estate collateral values;
- the economic and regulatory effects of terrorism, events of war and civil unrest;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Critical Accounting Policies" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Our future results and shareholder values 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. We do not undertake any 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 we may file with the FDIC, including on Forms 10-K, 10-Q and 8-K.

ITEM 1. BUSINESS

INFORMATION ABOUT SUMMIT STATE BANK

General

Summit State Bank is a state-chartered commercial bank operating a traditional community banking business within our primary service area of Sonoma County in California. We also consider and make loans to borrowers primarily from Marin, Napa and San Francisco counties. We operate through five Sonoma County depository offices located in Santa Rosa, Rohnert Park, Healdsburg and Petaluma. The Bank also has loan production offices in California (Roseville, Irvine, and Tustin), Arizona (Scottsdale), Texas (Montgomery), and Washington (Mukilteo) .

The Bank was incorporated on December 20, 1982 and commenced operations as a California state-chartered savings and loan in 1982. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank. On July 13, 2006, the Bank completed an underwritten initial public offering and listed its stock on the NASDAQ Global Market under the symbol SSBI. The Bank's deposits are insured by the FDIC in accordance with the Federal Deposit Insurance Act and the related regulations of the FDIC.

We provide a broad array of financial services to small to medium-sized businesses and their owners and employees, entrepreneurs, high net worth families, foundations, estates and individual consumers. We believe that our principal competitive advantages are personal service, flexibility and responsiveness to customer needs. Our lending activities are primarily focused on commercial real estate, construction, and business loans to our targeted clientele.

We emphasize relationship banking and believe we offer customers many of the management capabilities of large financial institutions with the resourcefulness and superior customer service of a community bank. Through our branches and the use of technology, we offer a broad array of deposit products and services for both commercial and consumer customers, including electronic banking, cash management services and electronic bill payment. We provide a comprehensive set of loan products, such as commercial loans and leases, lines of credit, commercial real estate loans, Small Business Administration ("SBA"), loans, residential mortgage loans to employees, home equity lines of credit, and construction loans. We believe that local decision- making ensures that our lending process is fast, efficient, and focused on maintaining our high credit quality and underwriting standards.

Restatement of Statement of Cash Flows

Subsequent to the issuance of the Bank's Financial Statements for the year-ended December 31, 2021, quarter ended March 31, 2022, and quarter and six-months ended June 30, 2022 (the "Affected Financial Statements"), 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. As a result, the Bank restated the Affected Financial Statements. On November 21, 2022, the Bank filed amendments to its Annual Report on Form 10-K for the year ended December 31, 2021 and its Quarterly Reports on Form 10-Q for the periods ended March 31, 2022 and June 30, 2022, to reflect the restatement of the Affected Financial Statements.

While misclassified, the amount of reported loans sales was not affected for any period and remains unchanged. Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. The misclassification had no effect on the Statements of Income, Statements of Comprehensive Income, Balance Sheets, or Statements of Changes in Shareholders Equity's included in the Affected Financial Statements. There was no effect on loans sold, total loans, the allowance for credit losses, total assets, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, net income, return on average equity, the efficiency ratio, asset quality ratios or any other key performance metrics.

The accompanying audited financial statements reflect "Proceeds from sales of loans other than loans originated for resale" within "cash flows from investing activities" on the statements of cash flows consistent with U.S. Generally Accepted Accounting Principles.

Financial Statement Reclassification

In response to the identified material weakness for the reporting period ending June 30, 2022, management will identify and summarize any future material reclassifications in the notes to the Bank's financial statements or alternatively will indicate that no material reclassifications have been made.

For the quarters ended September 30, 2022 and December 31, 2022, no reclassifications have occurred.

Services and Financial Products

Deposit Products

The Bank offers a wide range of deposit products designed to attract commercial businesses, professionals, and residents in the Bank's primary service area. These accounts include personal and business checking accounts, money market accounts, time certificates of deposit, sweep accounts and specialized deposit accounts, including professional accounts, small business "packaged" accounts, tiered accounts designed to attract larger deposits, and retirement plan accounts including IRAs.

Lending Products

The Bank offers a full complement of lending products designed to meet the specialized needs of its customers, including commercial and industrial lines of credit and term loans, equipment loans, real estate and construction loans, small business loans of which a portion may be guaranteed by the SBA or USDA. The Bank has the designation of "Preferred Lender" by the SBA, which allows for expedited loan approval and funding. The Bank offers loans in amounts which exceed the Bank's lending limits through participation arrangements with correspondent banks. On a selective basis, the Bank also offers loans to agriculture-related businesses. Between 2020 and 2021 the Bank participated in the Paycheck Protection Program (PPP) through the SBA to assist its customers with obtaining government guaranteed loans to them manage through the COVID-19 pandemic.

Brokered Deposits and Reciprocal Deposits

The Bank will accept brokered deposits when it is determined that brokered deposits would be advantageous over other time deposits accepted through the Bank's branch system. The Bank is a member of a network offering a time deposit product called CDARS and demand deposit product called ICS. When a customer places a large deposit with the Bank as a network member, the Bank can place the funds into certificates of deposit or demand accounts issued by other banks in the network in increments of less than $250,000, so that both principal and interest are eligible for complete FDIC protection. The network banks exchange deposits on a dollar-for-dollar basis, bringing the full amount of the original deposit back to the originating bank. Because the originating bank comes out "whole," it can make the full amount of deposits received available for community lending purposes or other initiatives of its choosing. Deposits placed using CDARS and ICS meet the pass-through insurance coverage guidelines established by the FDIC and the depositor can obtain up to a total of $150,000,000 in FDIC insurance coverage. The deposits received by the Bank from other network members in exchange for the Bank's customers' deposits placed in the program are not considered as brokered deposits for FFIEC Call Report purposes. Deposit funding raised through the CDARS products can vary significantly between financial reporting periods. CDARS and ICS reciprocal deposits totaled $172,110,000 or 18% of deposits at December 31, 2022 and $101,274,000 or 12% of deposits at December 31, 2021. Brokered deposits totaled $55,116,000 or 6% of deposits at December 31, 2022 and $58,266,000 or 7% of deposits at December 31, 2021. The Bank's reliance on broker deposits continues to decrease as the Bank increases its local deposit portfolio. The Bank's strategy is to continue replacing brokered deposits with local deposits.

State of California Approved Depository

The Bank is an approved depository for the deposit of funds of the State of California. These time deposits are placed with the Bank by the Treasurer of the State of California with maturities of three to six months, and are collateralized by investment securities, mortgage loans or letters of credit issued by the Federal Home Loan Bank (“FHLB”). There were no State of California deposits at December 31, 2022 and December 31, 2021.

Internet and Telephone Banking Services

The Bank offers a computerized internet banking system, accessible on the Internet at the Bank’s website www.summitstatebank.com, that enables its customers to view account information, access cash management services (including the initiation of automated clearinghouse payments), make transfers between accounts, pay bills, make loan payments, pre-schedule deposit transfers and request loan draws, and view both the front and back of cleared deposit items. The Bank also offers telephone banking services that enable customers to obtain account information, make transfers between accounts, make stop payments, check cleared items, and pre-schedule deposit transfers and loan payments. The Bank has an “app” for cellular phones that allows check image deposits, account inquiries and account transfers.

Other Services

Other services which the Bank offers include banking by appointment, online banking services, direct payroll and social security deposits, letters of credit, access to national automated teller machine networks, courier services, safe deposit boxes, night depository facilities, notary services, travelers’ checks, lockbox, and banking by mail.

Management evaluates the Bank’s services on an ongoing basis, and adds or discontinues services based upon customer needs, competitive factors, and the financial and other capabilities of the Bank. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal regulations.

Sources of Business

In marketing its services, the Bank capitalizes on its identity as a local, community bank, with executive officers, directors and shareholders who have business and personal ties to the community. Small to medium-sized businesses are targeted, as well as nonprofit charities.

The Bank competes with other financial institutions in its service area through localized promotional activities, personalized service, and personal contact with potential customers by employees, executive officers, directors, and shareholders. Promotional activities include media advertising, community advisory groups, and employee/officer participation in community business and civic groups. Officers and directors are active members of the community who call personally on their business contacts and acquaintances in the Sonoma County area to become customers.

Competition

The banking business in California generally, and in the Bank’s service area in particular, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks that have offices operating over wide geographic areas. The Bank competes for deposits and loans with these banks as well as with savings and loan associations, credit unions, mortgage companies, money market funds, stock brokerage firms, insurance companies, and other traditional and non-traditional financial institutions such as fintech’s.

Major financial institutions with offices in the service area include Bank of America, Wells Fargo Bank, and JP Morgan Chase. Regional and independent financial institutions with offices in our service area include, among others, Redwood Credit Union, Luther Burbank Savings/Washington Federal, Poppy Bank, Exchange Bank, and Westamerica Bank.

The major banks and some of the other institutions can finance significant investments in technology, extensive advertising campaigns and to shift their resources to regions or activities of greater potential profitability. Many of the competing banks and other institutions offer diversified financial services which may not be directly offered by the Bank. The major banks also have substantially more capital and higher lending limits.

The Bank competes for customers' funds with governmental and private entities issuing debt or equity securities or other forms of investments which may offer different or higher yields than those available through bank deposits.

Existing and future state and federal legislation could significantly affect the Bank's cost of doing business, its range of permissible activities, and the competitive balance among major, regional and independent banks, and other financial institutions. Management cannot predict the impact these matters may have on commercial banking in general or on the business of the Bank in particular.

To compete with the financial institutions operating in the Bank's service area, the Bank relies upon its independent status to provide flexibility and personalized service to its customers. The Bank emphasizes personal contacts with potential customers by employees, executive officers, and directors , develops local promotional activities, and seeks to develop specialized or streamlined services for customers. To the extent customers desire loans exceeding its lending limits or services not offered by the Bank, the Bank attempts to assist customers in obtaining such loans or other services through participations with other banks or assistance from correspondent banks.

Our Address, Telephone Number and Internet Website

Our principal executive offices are located at 500 Bicentennial Way, Santa Rosa, California 95403, and our telephone number is (707) 568-6000. Information about us is available at www.summitstatebank.com. The information on our website is not incorporated by reference into and does not form a part of this report.

We file reports with the FDIC under the Securities Exchange Act of 1934 (the "Exchange Act"), which include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as proxy and information statements in connection with our shareholders meetings. The FDIC maintains a website that contains the Exchange Act reports that file with the FDIC. The address of the website is www.fdic.gov. Electronic copies of Exchange Act reports filed with the FDIC are available free of charge by visiting the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are filed with the FDIC.

REGULATION AND SUPERVISION

Overview

Described below are the material elements of selected laws and regulations applicable to the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our business, results of operations or financial condition of the business.

The Bank is extensively regulated by federal and state authorities. Supervision, legal action and examination of the Bank by the bank regulatory agencies are generally intended to protect depositors and are not intended for the protection of shareholders. As a California state-chartered commercial bank, the Bank is regulated, supervised and examined by the California Department of Financial Protection & Innovation (the "DFPI") and the FDIC, which is the Bank's primary federal regulator. The regulations of the DFPI and the FDIC govern most aspects of the Bank's business relating to dividends, investments, loans, borrowings, capital requirements, branching, mergers and acquisitions, reserves against deposits, the issuance of securities and numerous other areas. Although the Bank is not a member bank of the Federal Reserve System, it is subject to certain regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), such as those dealing with check clearing activities and the establishment of reserves against deposits. The Bank is also subject to the rules and regulations of the Consumer Financial Protection Bureau ("CFPB"), which is responsible for implementing and enforcing federal consumer financial protection laws, though the FDIC has the authority to examine the Bank with respect to these laws and to bring enforcement actions against the Bank for any violations. The Bank is also subject to the requirements and restrictions of various consumer laws and regulations arising under California law.

As the Bank's primary regulators, the FDIC and the DFPI issue regulations, conduct examinations, require the filing of reports and generally supervise the operations of the Bank. The approval of the FDIC and DFPI is required for certain transactions in which the Bank may engage, including any merger or acquisition or assumption of deposits involving the Bank, a change in control over the Bank, or the establishment or relocation of any of the Bank's branch offices. In reviewing applications seeking approval of such transactions, the FDIC and DFPI may consider, among other things, the competitive effect and public benefits of the transactions, the capital position and financial and managerial resources and future prospects of the organizations involved in the transaction, the applicant's performance record under the Community Reinvestment Act (see "Community Reinvestment" below) and the effectiveness of the organizations involved in the transaction in combating money laundering activities. The FDIC and the DFPI also have the power to pursue enforcement actions against the Bank and its affiliated parties (see "Enforcement Authority" below).

Capital Adequacy Guidelines

The federal bank regulatory agencies, including the FDIC, have adopted risk-based capital guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a financial institution's operations. The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets, and a Tier 1 leverage ratio of Tier 1 capital to total assets. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for credit losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of pre-tax net unrealized gains on available-for-sale securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out must incorporate AOCI, including unrealized gains and losses on available-for-sale-securities, into common equity tier 1 capital. The Bank exercised its opt-out election during the first quarter of calendar 2015. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

The capital guidelines make regulatory capital requirements sensitive to the differences in risk profiles among banking institutions by risk-weighting a Bank's assets, including off-balance sheet items, for purposes of calculating a Bank's capital ratios.

The capital guidelines require the Bank to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a Tier 1 leverage ratio of 4%. The guidelines also establish a "capital conservation buffer" of 2.5% above the regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that fail to maintain the capital conservation buffer face constraints on dividends, equity repurchases and executive compensation based on the amount of the shortfall.

The above capital ratios are minimum requirements. In practice, banks are expected to operate with more than the minimum capital and the FDIC may establish greater minimum capital requirements for specific institutions.

The federal banking agencies have adopted a new community bank leverage ratio (the ratio of a bank's tier 1 capital to average total assets) that qualifying institutions with less than $10 billion in assets may elect to use in lieu of the generally applicable leverage and risk-based capital requirements described above. A qualifying banking organization that elects to use the new ratio will be considered to have met all applicable federal regulatory capital and leverage requirements, including the minimum capital levels required to be considered "well capitalized" if it maintains community bank leverage ratio capital exceeding 9%. The Bank has elected not to implement the community bank leverage ratio at this time.

Prompt Corrective Action

Federal banking agencies, including the FDIC, have adopted regulations implementing a system of prompt corrective action under the Federal Deposit Insurance Corporation Improvement Act. Under the prompt corrective action provisions and implementing regulations, every institution is classified into one of five categories, depending on its total risk-based capital ratio, its common equity Tier 1 ratio, its Tier 1 risk-based capital ratio, its leverage ratio, and subjective factors. The categories are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." To be considered well capitalized for purposes of the prompt corrective action rules, a bank must maintain total risk-based capital of 10.0% or greater, Tier 1 risk-based capital of 8.0% or greater, common equity Tier 1 capital of 6.5% or greater, and a leverage ratio of 5.0% or greater. An institution with a capital level that might qualify for well capitalized or adequately capitalized status may nevertheless be treated as though it were in the next lower capital category if its primary federal banking supervisory authority determines that an unsafe or unsound condition or practice warrants that treatment.

A financial institution's operations can be significantly affected by the financial institution's capital classification under the prompt corrective action rules. For example, an institution that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market without advance regulatory approval, which can have an adverse effect on the bank's liquidity. At each successively lower capital category, an insured depository institution is subject to additional restrictions. Undercapitalized institutions are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance funds. Bank regulatory agencies generally are required to appoint a receiver or conservator shortly after an institution becomes critically undercapitalized (with tangible equity to total assets of 2% or less).

As of December 31, 2022, the Bank had a common equity Tier 1 capital ratio of 9.4%, a total risk-based capital ratio of 11.3%, a Tier-1 risk-based capital ratio of 9.4%, and a leverage ratio of 8.5%; all ratios are exceeding the minimums necessary to be considered well-capitalized.

Standards for Safety and Soundness

Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a "cease and desist" order or the imposition of civil money penalties.

Enforcement Authority

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, condition imposed in writing by the agency or written agreement with the agency. Enforcement actions may include the issuance of formal and informal agreements, the issuance of a cease-and-desist order that can be judicially enforced, the issuance of directives to increase capital, the imposition of civil money penalties, the issuance of removal and prohibition orders against institution-affiliated parties, the termination of insurance of deposits, the imposition of a conservator or receiver, and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The California Financial Code affords the DFPI similar enforcement authority. In addition, the DFPI has authority to take possession of and to liquidate a bank, to appoint a conservator for a bank and to appoint the FDIC as receiver for a bank.

Deposit Insurance Premiums

The Deposit Insurance Fund of the FDIC insures deposits at insured depository institutions such as the Bank generally up to a maximum of $250,000 per depositor.

Insured depository institutions pay the FDIC insurance assessments. The amount of the insurance assessment is based on the bank's average assets less tangible equity capital.

Assessment rates are risk-based. For banks that have been FDIC insured for at least five years and have less than $10 billion in total assets, such as the Bank, assessments rates are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years and range from 2.5 to 42 basis points.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what assessment rates will be in the future.

The FDIC may terminate an institution's deposit insurance upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The termination of the Bank's deposit insurance would result in a loss of its charter to conduct business as a bank.

Limits on Loans to One Borrower

Under the California Financial Code, with certain limited exceptions, a bank's unsecured loans to one borrower generally may not exceed 15% of the sum of a bank's capital stock, allowance for credit losses and capital notes and debentures, and both secured and unsecured loans to one borrower (excluding certain secured lending and letters of credit) at any given time generally may not exceed 25% of the sum of the bank's capital stock, allowance for credit losses and capital notes and debentures. Except for limitations on the amount of loans to a single borrower, loans secured by real or personal property may be made to any person without regard to the location or nature of the collateral.

Brokered Deposit Restrictions

Well-capitalized institutions are generally not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. Qualifying reciprocal deposits are generally exempt from these limitations on brokered deposits.

Limitations on Dividends

Under California law, the holders of the Bank's common stock are entitled to receive dividends out of funds legally available for the payment of dividends when and as declared by the Board of Directors, provided the conditions described below are satisfied. Federal law prohibits the Bank from paying a dividend if, after payment of the dividend, the Bank would not be "adequately capitalized" for purposes of prompt corrective action.

The Board may approve the Bank's payment of cash dividends from time to time depending on various factors, including the earnings and capital requirements of the Bank and other financial conditions. California law provides that, as a state-chartered bank, the Bank may not make a cash distribution to its shareholders in excess of the lesser of the following: (a) the Bank's retained earnings or (b) the Bank's net income for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholders during that period. However, a bank, with the prior approval of the DFPI, may make a distribution to its shareholders of an amount not to exceed the greatest of (1) the Bank's retained earnings, (2) the Bank's net income for its last fiscal year, or (3) the Bank's net income for the current fiscal year. If the DFPI determines that the shareholders' equity of the Bank is inadequate or that the making of a distribution by the Bank would be unsafe or unsound, the DFPI may order the Bank to refrain from making a proposed distribution.

The FDIC and the DFPI have authority to prohibit a bank from engaging in business practices that are considered to be unsafe or unsound. Depending upon the financial condition of the Bank and upon other factors, the FDIC or the DFPI could assert that payments of dividends or other payments by the Bank might be an unsafe or unsound practice.

Transactions with Related Parties and Insider Lending

Transactions between banks and their related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank.

Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such bank's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20.0% of such bank's capital stock and surplus. The term ''covered transaction'' includes the making of loans, purchase of assets, issuance of guarantees and other similar transactions. In addition, loans or other extensions of credit by the bank to an affiliate are required to be collateralized in accordance with regulatory requirements and the bank's transactions with affiliates must be consistent with safe and sound banking practices and may not involve the purchase by the bank of any low-quality asset. Section 23B applies to covered transactions as well as certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to non-affiliates.

Section 22(h) of the Federal Reserve Act and the Federal Reserve Board's Regulation O govern extensions of credit made by a bank to its directors, executive officers, and principal shareholders ("insiders"). Among other things, these provisions require that extensions of credit to insiders be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features. Further, such extensions may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. Extensions of credit in excess of certain limits must also be approved by the board of directors.

Customer Privacy

Federal law contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Further, under the “Interagency Guidelines Establishing Information Security Standards,” banks must implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer information. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Cybersecurity

Federal banking regulators have indicated that financial institutions should design multiple layers of security controls to establish lines of defense against and to ensure that their risk management processes address cyber-security risks posed by compromised client credentials, including security measures to reliably authenticate clients accessing Internet-based services of the financial institution. Financial institution management is also expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber-attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Bank fails to observe regulatory guidance regarding appropriate cybersecurity safeguards, we could be subject to various regulatory sanctions, including financial penalties.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977 (“CRA”), the FDIC is required to assess the record of all financial institutions regulated by it to determine if such institutions are meeting the credit needs of the community (including low and moderate-income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. The federal banking regulators consider an institution’s CRA performance when evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank’s most recent CRA rating was “Satisfactory”.

Anti-Money Laundering and OFAC

Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated Bank Secrecy Act/Anti-Money Laundering officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations, and they must consider an institution’s compliance in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The bank regulatory agencies may impose cease and desist orders, civil money penalty sanctions and other enforcement measures against institutions found to be violating these obligations.

The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC sends bank regulatory agencies lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts or narcotics trafficking. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify the appropriate authorities.

Consumer Protection Laws

The Bank is subject to a number of federal and state laws designed to protect borrowers and depositors and to promote lending to various sectors of the economy. These laws include the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts. The Fair and Accurate Credit Transactions Act of 2003 and its implementing regulations to require financial institutions to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with consumer and certain other accounts that present a reasonably foreseeable risk of identity theft. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. Typically, the intent of this type of legislation is to strengthen the banking industry. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on the Bank.

Employees

As of December 31, 2022, the Bank employed a total of 112 employees in various capacities, primarily located in California with 5 of those employees located outside the state. The Bank's employees are not represented by any union or covered by any collective bargaining agreement. The Bank considers its relationships with its employees to be good. Our banking strategy is largely dependent on the personal relationships of our employees, the quality of service they provide and their involvement in the communities we serve. We strive to attract, develop and retain employees who can further our strategic goals and build long-term shareholder value. To do so, we offer compensation, benefits, and training designed to attract, develop and retain employees. While we expect to hire employees to further our growth strategy, as a result of attrition and as opportunities to recruit talent may arise, in general, we believe our human capital resources are adequate for our needs.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Risks Related to the COVID-19 Pandemic

The COVID-19 Pandemic has and will continue to pose risks and could harm our business, results of operations and prospects.

Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on the business of the Bank, its customers, employees and third-party service providers. The extent of such impact will depend on future developments, which are highly uncertain, including when the pandemic can be controlled and abated, future actions by governmental and nongovernmental authorities intended to mitigate the pandemic and changing customer preference and behaviors.

Post-pandemic disruptions to our customers could result in delayed increased risk of delinquencies, defaults, foreclosures and losses on our loans, as well as reductions in loan demand, the liquidity of loan guarantors, loan collateral values (particularly in real estate), loan originations, interest and noninterest income and deposit availability. These factors may become prevalent after a significant period of time and may continue to adversely affect our business, results of operations and financial condition even as the COVID-19 pandemic has subsided.

Our participation in the Payroll Protection Program exposes us to risks of noncompliance, which could have a material adverse impact on our business, financial condition and results of operations.

During 2020 and 2021, we were a participating lender in the Payroll Protection Program ("PPP"), a loan program administered through the SBA that was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the PPP. We may, however, be exposed to credit risk on PPP loans if the SBA determines that there was a deficiency in the way a loan was originated, funded, or serviced. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Through 2021 we originated over 860 PPP loans totaling about $134,000,000. As of December 31, 2022, the outstanding PPP loan balance has been reduced to $5,822,000 or 0.6% of total loans.

Economic or Market Risks

Our business may be adversely affected by other general economic conditions, including conditions in California.

The banking business is affected by general economic and political conditions, both domestic and international, and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, money supply, scarce natural resources, weather, natural disasters such as earthquakes, international disorders, and other factors beyond our control may adversely affect our profitability.

A substantial majority of our assets and deposits are generated in Northern California. Local economic conditions in this area can have a significant impact on the demand for our products and services, the ability of borrowers to pay interest on and repay the principal of our loans, and the value of the collateral securing these loans. Adverse changes in economic conditions in the Northern California market may negatively affect our business, results of operations or financial condition.

Increases in FDIC insurance premiums could adversely affect our earnings.

Our deposits are insured by the FDIC up to applicable legal limits through the FDIC's Deposit Insurance Fund (the "DIF"). As an insured depository institution, we are required to pay periodic deposit insurance assessments to support the DIF. Generally, the amount of our assessments is based on a number of factors, including our regulatory capital levels, asset growth and asset quality. To maintain the DIF at an appropriate level, however, the FDIC could increase deposit insurance assessment rates and could charge a special assessment to all FDIC-insured financial institutions, particularly in the wake of several recent depository institution failures. Any future special assessments, increases in assessment rates or required prepayments of FDIC insurance premiums would increase our expenses, which could have a material adverse effect on our business, financial condition and results of operations.

We are highly dependent on real estate and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2022, real estate served as the principal source of collateral with respect to approximately 94% of our loan portfolio. A decline in the value of the real estate securing our loans and real estate owned by us could adversely impact our financial condition. In addition, acts of nature, including earthquakes, wildfires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition. This is particularly significant in light of the fact that substantially all of the real estate that makes up the collateral of our real estate-secured loans is located in Northern California, where earthquakes, wildfires and floods are common.

Our ability to pay future dividends is subject to certain limitations.

Our ability to pay dividends is limited by law, regulation and our financial condition. We cannot assure you that we will continue to pay dividends at the rate and frequency at we have done in the past or we will declare and pay any dividends in the future at all. See "Regulation and Supervision - Limitations on Dividends".

Lending and Other Operating Risks

Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the credit experience of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain an allowance for credit losses, a reserve established through a provision for credit losses charged to expense, which we believe is appropriate to provide for expected credit losses over the life of our loan portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- the Bank’s own historical default and loss experience;
- reasonable and supportable forecasts of economic conditions such as unemployment rates, property values, Consumer Price Index, Gross Domestic Product, and treasury yields; and
- our evaluation of the collectability of non-performing loans and the value of their underlying collateral.

The determination of the appropriate level of the allowance for credit losses inherently involves a degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in the provision for possible credit losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for credit losses, we may need additional provisions to replenish the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations.

Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability.

Rising commercial real estate lending concentrations may expose institutions like us to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. In addition, institutions that are exposed to significant commercial real estate concentration risk may be subject to increased regulatory scrutiny. The federal banking agencies have issued guidance for institutions that are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions that have (i) total reported loans for construction, land development, and other land which represent 100% or more of an institution’s total risk-based capital; or (ii) total commercial real estate loans which represent 300% or more of the institution’s total risk-based capital and an increase in the outstanding balance of the institution's commercial real estate loan portfolio of 50% or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. As of December 31, 2022, our loans for construction, land development and other land represented 60% of our total risk-based capital. Our non-owner occupied commercial real estate concentration at December 31, 2022 was 398% of our capital. Management has implemented and continues to maintain heightened portfolio monitoring and reporting, and enhanced underwriting criteria with respect to its commercial real estate portfolio. Nevertheless, our level of commercial real estate lending could limit our growth or require us to obtain additional capital and could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to liquidity risk and changes in our source of funds may affect our performance and financial condition.

Our ability to make loans is directly related to our ability to secure funding. In addition to local deposits, the Bank has the capacity to receive funding from the FHLB, Federal Reserve Bank , third-party brokers, the State of California, and, unsecured lines from correspondent banks when such alternatives are attractive compared to the cost of attracting additional local deposits. These alternative sources of funds, along with local time deposits, are sensitive to interest rates and can affect the cost of funds and net interest margin. Liquidity risk arises from the inability to meet obligations when they come due or to manage the unplanned decreases or changes in funding sources. Although we believe we can continue to successfully pursue a local deposit funding strategy, if there are significant fluctuations in local deposit balances or if one of the alternative sources of funds becomes unavailable, we may experience an adverse effect on our financial condition and results of operations.

Changes in interest rates may reduce net income.

Our income depends to a great extent on the difference between the interest rates we earn on our loans, securities and other interest-earning assets and the interest rates we pay on deposits and other interest-bearing liabilities. These rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular the Federal Reserve Board. A change in interest rates could have a material adverse effect on our results of operations, financial condition and prospects by reducing the spread between income realized on interest earning assets and interest paid on interest bearing liabilities. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Therefore, an increase in interest rates could cause the fair value of our securities investments to decrease, which could materially and adversely affect our results of operations, financial condition and prospects. See "Quantitative and Qualitative Disclosures About Market Risk".

We are exposed to adverse, regulatory, reputation and litigation risk with respect to laws concerning cannabis.

California permits adults over the age of 21 to possess, privately use and grow limited amounts of cannabis. California legalized the commercial sale, distribution and production of cannabis for adult use at state-licensed facilities beginning in January 1, 2018. Cannabis remains illegal under the federal Controlled Substances Act and banks are prohibited from knowingly providing banking services to enterprises that are illegal under federal law. However, in 2013, the U.S. Department of Justice issued the "Cole Memorandum," which directed federal prosecutors to focus prosecutorial priorities away from state-legal cannabis activity unless certain heightened risk factors were present. On January 4, 2018, the U.S. Attorney General rescinded of the Cole Memorandum and announced that federal prosecutors retain the discretion to prosecute violations of the Controlled Substances Act, including state-legal recreational cannabis activity, in accordance with principles that govern all federal prosecutions. Further, in 2014, the Financial Crimes Enforcement Network or FinCEN issued guidance to banks on how to comply with the due diligence and reporting requirements in the Bank Secrecy Act when providing banking services to cannabis-related businesses.

Although we generally do not offer banking services to cannabis-related businesses ("CRB"), in 2022 we implemented a pilot program in which we offer banking to a limited number of CRB customers following extensive due diligence and subject to ongoing monitoring. As of December 31, 2022, we had six customers in our pilot program consisting of two direct CRB deposit customers, three ancillary CRB deposit customers, and one ancillary CRB commercial real estate loan.

Outside of the pilot program, we may be exposed to cannabis businesses if we foreclose and take title to real estate that is used in a CRB or may inadvertently offer loan or deposit services to customers who engage in that business if the customer misrepresents or hides its involvement in the cannabis industry.

If we provide banking services or hold funds for a CRB, whether as part or outside of our pilot program a cannabis business or CRB outside of the pilot program, or if we are seen as participating in an illegal enterprise, we may be subject to additional risks, including litigation, regulatory enforcement actions and collateral asset seizures and reputation risk.

We are subject to stringent capital requirements.

The federal banking agencies capital guidelines require that we meet minimum leverage and risk-based capital requirements applicable to bank holding companies and insured banks. Our satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from our management's and that are subject to being determined retroactively for prior periods. Additionally, regulators can make subjective assessments about the adequacy of capital levels, even if our capital exceeds the minimums necessary to be considered "well-capitalized." Our failure to meet regulatory capital requirements could have a material adverse effect on our business, including damaging the confidence of customers in us, adversely impacting our reputation and competitive position and retention of key personnel. Our failure to meet capital requirements could also limit or suspend our ability to grow or expand our business, pay dividends and accept brokered deposits. A failure to meet regulatory capital standards may also result in higher FDIC insurance assessments. Maintaining adequate capital levels could require that we raise additional capital, which could reduce our earnings or dilute our existing shareholders. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition, results of operations and liquidity.

The accuracy of our judgments and estimates about financial and accounting matters will impact operating results and financial condition.

The Bank makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Bank's operating results and financial condition. The primary item that is subject to material estimates and judgments is the allowance for credit losses of $14,839,000 as of December 31, 2022. Although management believes its estimates and judgements are reasonable and may seek to support its estimates and judgments by employing third party reviews there are no assurances that regulatory reviews may result in a different conclusion or future events may occur that impact the recorded values resulting in material fluctuations of financial results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates".

We are dependent on our management team and key employees, and if we are not able to retain them, our business operations could be materially adversely affected.

Our success depends, in large part, on our management team and key employees. Our management team has significant industry and business experience and our future success depends on our continuing ability to attract, develop, motivate and retain key employees. Qualified individuals are in high demand, particularly in the banking business, and we may incur significant costs to attract and retain them. Because the market for qualified individuals is highly competitive, we may not be able to attract and retain qualified officers or candidates. The loss of any of our management team or our key employees could materially adversely affect our ability to execute our business strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We cannot ensure that we will be able to retain the services of any members of our management team or other key employees. Though we have change-in-control agreements in place with certain members of our management team, they may still elect to leave at any time. Failure to attract and retain a qualified management team and qualified key employees could have a material adverse effect on our business, financial condition, and results of operations.

Our business is highly competitive.

In California generally, and in our service area specifically, major banks and regional banks dominate the commercial banking market. By virtue of their larger capital bases, such institutions have substantially greater financial, marketing and operational resources than us and offer diversified services that we might not directly offer. We compete with larger commercial banks and other financial institutions, such as savings and loan associations and credit unions, which offer services traditionally offered only by banks. In addition, we compete with other institutions such as money market funds, brokerage firms, commercial finance companies, leasing companies, fintech companies and even retail stores seeking to penetrate the financial services market. No assurance can be given, however, that our efforts to compete with other banks and financial institutions will continue to be successful. In addition, the costs of providing a high level of personal service could adversely affect our operating results. See "Information About Summit State Bank - Competition".

We depend on loan originations to grow our business.

Our success depends on, among other things, our ability to originate loans. Real estate valuations in our market area have escalated in recent years and may not be sustained. Our competitors may offer better terms, better service, or respond to changing capital and other regulatory requirements better than we are able to do. Some of our competitors make loans on terms that we may not be willing to match. Success in competing for loans depends on such factors as:

- Quality of service to borrowers, especially the time it takes to process loans;
- Economic factors, such as interest rates;
- Terms of the loans offered, such as rate adjustment provisions, adjustment caps, loan maturities, loan-to-value ratios and loan fees; and
- Size of the loan.

Risks Related to Information Systems and Controls

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we can replace them, it may be at a higher cost, which could adversely affect our business, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management and systems. We cannot assure that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected. The occurrence of any such failures, interruptions or security breaches could damage our reputation, result in a loss of customer business, subject us to heightened regulatory scrutiny, or expose us to litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We may be adversely affected by disruptions to our network and computer systems or to those of our service providers as a result of denial-of-service or other cyber-attacks.

We may experience disruptions or failures in our computer systems and network infrastructure or in those of our service providers as a result of denial-of-service or other cyber-attacks in the future. We have developed and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks. Due to the increasing sophistication of such attacks, we may not be able to prevent denial-of-service or other cyber-attacks that could compromise our normal business operations, compromise the normal business operations of our customers, or result in the unauthorized use of customers' confidential and proprietary information. While to date the Bank has not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, its systems and those of its clients and third-party service providers are under constant threat and it is possible we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by the Bank and its clients. The occurrence of any failure, interruption or security breach of network and computer systems resulting from denial-of-service or other cyber-attacks could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could adversely affect our business, results of operations or financial condition.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Bank's business, results of operations and financial condition.

A failure to maintain effective internal control over financial reporting could have a material adverse effect on our business and stock prices.

If we are unable to maintain the effectiveness of our internal control over financial reporting, we may be unable to report our financial results accurately and on a timely basis. In such an event, investors and clients may lose confidence in the accuracy and completeness of our financial statements, as a result of which our liquidity, access to capital markets, and perceptions of our creditworthiness could be adversely affected and the market prices of our common stock could decline. In addition, we could become subject to investigations by NASDAQ, the FDIC, the SEC, or other regulatory authorities, which could require us to expend additional financial and management resources. As a result, an inability to maintain the effectiveness of our internal control over financial reporting in the future could have a material adverse effect on our business, financial condition, results of operations and prospects.

Regulatory Risks

Our business is subject to extensive government regulation and legislation.

We are subject to extensive state and federal regulation, supervision and legislation, and the laws that govern us and our operations are subject to change from time to time. Applicable laws and regulations provide for the regular examination and supervision of institutions; impose minimal capital requirements; affect the cost of funds through reserve requirements and assessments on deposits; limit or prohibit the payment of interest on demand deposits; limit the kinds of investments we can make and the kinds of activities in which we can engage; and grant the bank regulatory agencies broad enforcement authority in case of violations. The bank regulatory agencies have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for credit losses and determine the level of deposit insurance premiums assessed. The laws and regulations increase the cost of doing business and have an adverse impact on our ability to compete efficiently with other financial services providers that are not similarly regulated. See "Information About Summit State Bank – Regulation and Supervision".

Changes in laws and regulations and the cost of compliance with new laws and regulations may adversely affect our operations and our income.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices, for example, the fees we charge customers and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. There can be no assurance that future regulation or legislation will not impose additional requirements and restrictions on us in a manner that will adversely affect its results of operations, financial condition and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the Uniting and Strengthening America by Providing Appropriate Tools to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. Our federal and state banking regulators, FinCEN, and other government agencies are authorized to impose significant civil money penalties for violations of anti-money laundering requirements. We are also subject to increased scrutiny of compliance with the regulations issued and enforced by OFAC. If our program is deemed deficient, we could be subject to liability, including fines, civil money penalties and other regulatory actions, which may include restrictions on our business operations and our ability to pay dividends, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have significant reputational consequences for us. The risk of non-compliance may be heightened to the extent we knowingly or unknowing provide services to CRB's. Any of these circumstances could have a material adverse effect on our business, financial condition or results of operations.

General Risk Factors

Our Stock Price May Be Volatile.

There is a limited trading market exists for our common shares which could lead to price volatility. The ability to sell common shares depend on the existence of an active trading market for our common shares. While our common stock is traded on the NASDAQ Global Market, the trading volume has been relatively low. As a result, a shareholder may be unable to sell or purchase our common shares at the volume, price and time they desire. The limited trading market for our common shares may cause fluctuations in the market value of our common shares to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market. In addition, even if a more active market of our common stock develops, we cannot make assurances that such a market will continue.

Our investment securities portfolio may be negatively impacted by changes in market value, interest rates or credit quality.

We held $83.8 million, or approximately 8% of our assets, in investment securities at December 31, 2022. Beginning in March 2022, the Federal Reserve made a series of increases to the target Federal Funds rate as part of an effort to combat elevated levels of inflation, which is expected to continue in the near term. Changes in market interest rates can affect the value of our investment securities, with increasing interest rates generally resulting in a reduction of value. The rising interest rate environment has negatively impacted the fair value of our investment securities portfolio, which had $10.0 million in net unrealized losses from available-for-sale investment securities at December 31, 2022. While the reduction in value from temporary increases in market interest rates does not affect our income until the security is sold, it does result in an unrealized loss recorded in other comprehensive income that can reduce our stockholders' equity.

Further, we must periodically test our investment securities for potential credit losses. In assessing whether there is a potential for actual credit loss of investment securities, we consider when it is likely the full amount of contractual principal and interest will be recouped over the life of the investment and whether we have specific plans to sell or be required to sell the security prior to full recovery. While the majority of the investment securities in our portfolio were issued by government or government sponsored entities, as of December 31, 2022, $24.2 million, or approximately 29% of our securities portfolio, were issued by corporate issuers which generally carry a greater credit risk. While we generally seek to minimize our exposure by strategically diversifying our credit exposure to obligations of issuers in various geographic locations throughout California and the U.S., investing in investment grade securities and actively monitoring the credit worthiness of the issuers and/or credit guarantee providers, there is no guarantee that the issuers will remain financially sound or continue their payments on these investment securities. If we determine we will incur a credit loss on our investment securities, we would be required to recognize an allowance for credit loss, which reduces our net income.

The process for determining whether the Bank should record an allowance for credit loss on investments requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that the declines in market value will not result in an allowance for credit loss of these assets, and lead to accounting charges that could have a material adverse effect on our business, financial condition, and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank owns its head office building located at 500 Bicentennial Way, Santa Rosa, California. The building has approximately 31,000 square feet of usable space. The Bank occupies approximately 25,000 square feet as its headquarters. The remaining 6,000 square feet are currently leased to one tenant, with lease terms maturing in 2024 with a three-year extension option. The Bank also leases spaces for branch offices in three shopping centers and one commercial building. These leases expire at various dates from 2024 through 2025 and include renewal and termination options and rental adjustment provisions. The Bank leases three commercial spaces for loan production with lease expirations through 2028.

ITEM 3. LEGAL PROCEEDINGS

The nature of our business causes us to be involved in legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation where management anticipates that the outcome will have a material effect on the financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank's common stock trades on the NASDAQ under the symbol "SSBI." There were 146 common stock shareholders of record at December 31, 2022. There were no issuer purchases of equity securities for the three-month period ended December 31, 2022.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides additional information about the financial condition of the Bank at December 31, 2022 and 2021 and results of operations for the years ended December 31, 2022, 2021 and 2020. The following analysis should be read in conjunction with the financial statements of the Bank and the notes thereto prepared in accordance with accounting principles generally accepted in the United States.

Restatement of Financial Statements

In November 2022, the Bank determined that the Statements of Cash Flows in its financial statements for the year ended December 31, 2021 and the quarterly periods ended March 31, 2022 and June 30 2022 misclassified certain loans sales as operating activities rather than investment activities. Additional information regarding the correction of the misclassification is included in Note 1 to the financial statements filed with this report.

While misclassified, the amount of reported loans sales was not affected for any period and remains unchanged. Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. The misclassification had no effect on the Statements of Income, Statements of Comprehensive Income, Balance Sheets, or Statements of Changes in Shareholders Equity's included in the Affected Financial Statements. There was no effect on loans sold, total loans, the allowance for credit losses, total assets, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, net income, return on average equity, the efficiency ratio, asset quality ratios or any other key performance metrics.

Overview

The Bank is a community bank serving Sonoma, Napa, San Francisco and Marin counties in California. It operates through five depository offices located in Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank also has loan production offices located in California (Roseville, Irvine, and Tustin), Arizona (Scottsdale), Texas (Montgomery), and Washington (Mukilteo). The Bank was founded as a savings and loan in 1982 under the name Summit Savings. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank and thereby became subject to regulation, supervision and examination by the DFPI and the FDIC.

Government and Regulatory Oversight

The Bank is subject to regulatory oversight by the Department of Financial Protection & Innovation (DFPI) of the state of California and the Federal Deposit Insurance Corporation (FDIC). These regulatory bodies periodically perform financial examinations of the Bank. There is a potential that an examination may derive different estimates than those reached by management and could require material adjustments or restatements.

Critical Accounting Policies and Estimates

The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements. These estimates are discussed in more detail under "Financial Statements and Supplementary Data" "Notes to Financial Statements - Summary of Significant Accounting Policies".

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses.

Allowance for Credit Losses. The Bank's process for determining the adequacy of the allowance for credit losses is set forth in a formal credit policy. Loans with similar risk characteristics are evaluated on a collective pool basis and the allowance for credit losses is calculated using a life of loan pool estimate based on actual historical losses adjusted for economic forecasts and current conditions.

The Bank maintains the allowance for credit losses at a level that is estimated to be sufficient to absorb expected credit losses associated with the Bank's loan portfolio. Additions to the allowance for credit losses are established through a provision for credit losses on its statements of income. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Collateral-dependent loans are individually evaluated for impairment to determine the ultimate loss potential (or the collateral's fair value less cost to sell) to the Bank subsequent to the liquidation of collateral. In those cases where management believes the Bank is inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, enable the Bank to assess such credit risk factors prior to granting new loans, evaluate the sufficiency of the allowance for credit losses and maintain the allowance for credit losses at an appropriate level. The Bank conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examine and formally approve the adequacy of the allowance. 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. 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, and treasury yields.

A portion of the allowance for credit losses is based on qualitative factors that are adjusted due to volatility and uncertainty in the Bank's loan portfolio and the market that management believes is reasonable and supportable. These qualitative factors include the economic forecast scenarios, economic forecast weighting, and net-term loan loss stabilization.

Results of Operations

Years Ended December 31, 2022, 2021 and 2020

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds. The Bank also generates non-interest income, including transactional fees, service charges, office lease income, gains on investment securities and gains on sold government guaranteed loans originated by the Bank. Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for credit losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, natural disasters such as wildfires, floods, and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

In 2020 and 2021, the COVID-19 pandemic and related government actions taken to reduce the spread of the virus created significant economic uncertainty and reduced economic activity, including within our market areas. The Bank participated in the Small Business Administration's ("SBA's") Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES" Act) to help eligible businesses, organizations and self-employed persons fund their operational costs during the pandemic. PPP loans have up to five-year terms and earn interest at 1% and a fee of 1%-5% based on the loan amount. These loans are fully guaranteed by the SBA and may be forgiven by the SBA if they meet certain requirements in accordance with the terms of the program. Through 2021 we originated over 860 PPP loans totaling about $134,000,000. As of December 31, 2022, the outstanding PPP loan balance has been reduced to $5,822,000 or 0.6% of total loans. Through December 31, 2022, the Bank has received approximately $128,000,000 in PPP forgiveness from the SBA.

Net Income

The Bank had net income and net income available for common stockholders of $16,968,000 or $2.54 per diluted share, for the year ended December 31, 2022 compared to net income and net income available for common stockholders of $14,698,000, or $2.20 per diluted share, for the year ended December 31, 2021, and net income of $10,517,000 or $1.57 per diluted share, for the year ended December 31, 2020. All current and historical stock data has been adjusted to reflect the 10% stock dividend declared effective October 29, 2021.

The return on average assets was 1.69%, 1.64% and 1.33% for the years ended December 31, 2022, 2021 and 2020, respectively.

The return on average common equity was 19.27%, 18.48% and 14.68% for the years ended December 31, 2022, 2021 and 2020, respectively.

In 2016 the Board of Directors adopted a 5-year strategy to position the Bank for accelerated growth. In 2021 the Board updated its 5-year strategy and continues setting expectations to focus on growing the Bank's core lending operations. The Bank's strategy has enabled it to increase its lending capacity and recognize record earnings in 2022. A majority of the growth in earnings is due to growth in the Bank's core operation in 2022 including increased loan portfolio production, increased interest rate environment which contributed to increased net interest income, and increase in SBA loan sales.

Net Interest Income and Net Interest Margin

Net interest income was $42,427,000 and the net interest margin was 4.34% for the year ended December 31, 2022, which represented a $4,821,000 or 13% increase over 2021. For the year ended December 31, 2021, net interest income was $37,606,000 and the net interest margin was 4.28%, which represented a $7,345,000 or 24% increase over 2020. For the year ended December 31, 2020, net interest income was $30,261,000 and the net interest margin was 3.91%. At December 31, 2022, approximately 82% of the Bank's assets were comprised of net loans and 8% were comprised of investment securities compared to 86% of net loans and 7% of investment securities at December 31, 2021.

The yield on average interest-earning assets was 5.00% for the year ended December 31, 2022, 4.78% for December 31, 2021, and 4.71% for the year ended December 31, 2020.

In 2022, average earning assets increased 11.4% with average investment securities increasing 4.0% and average loans increasing 12.0%. In 2021, average earning assets increased 13.5% with average investment securities decreasing 15.2% and average loans increasing 12.9%.

For the year ended December 31, 2022, the cost of average interest-bearing liabilities was 0.99% compared with a cost of average interest-bearing liabilities of 0.74% for the year ended December 31, 2021 and 1.15% for the year ended December 31, 2020.

The increase in net interest income and average earning assets was primarily attributable to the increase in the loan portfolio volume from organic loan growth and increased returns on investments and deposits with banks. The Bank is also experiencing growth in its net interest margin from loans repricing up at a faster rate than non-maturing deposits and maturing CD rates are increasing.

The following table presents condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

Average Balance Sheets and Analysis of Net Interest Income

	Year Ended December 31,								
	2022			2021			2020		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets									
Interest earning assets:									
Interest-bearing deposits with banks	$ 33,532	$ 596	1.78%	$ 30,061	$ 37	0.12%	$ 24,206	$ 65	0.27%
Taxable investment securities	70,823	1,935	2.73%	68,094	1,500	2.20%	59,095	1,498	2.53%
Dividends on FHLB Stock	4,613	301	6.53%	4,063	244	6.01%	3,403	229	6.73%
Loans, net of unearned income (1)	869,201	46,124	5.31%	776,040	40,192	5.18%	687,333	34,633	5.04%
Total earning assets/interest income	978,169	48,956	5.00%	878,258	41,973	4.78%	774,037	36,425	4.71%
Non-earning assets	40,466			28,588			24,789		
Allowance for loan losses	(13,449)			(11,453)			(7,767)		
Total assets	$ 1,005,186			$ 895,393			$ 791,059		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand deposits	$ 147,340	$ 765	0.52%	$ 115,061	$ 219	0.19%	$ 74,136	$ 122	0.16%
Savings and money market	222,293	1,480	0.67%	207,313	1,252	0.60%	167,720	1,287	0.77%
Time deposits	221,937	2,697	1.22%	204,037	1,734	0.85%	225,305	3,547	1.57%
FHLB advances	62,528	1,212	1.94%	54,233	787	1.45%	61,290	833	1.36%
Subordinated Debt	5,898	375	6.36%	5,883	375	6.37%	5,869	375	6.39%
Total interest-bearing liabilities/interest expense	659,996	6,529	0.99%	586,527	4,367	0.74%	534,320	6,164	1.15%
Non interest-bearing deposits	248,795			224,668			181,504		
Other liabilities	10,357			4,660			3,598		
Total liabilities	919,148			815,855			719,422		
Shareholders' equity	86,038			79,538			71,637		
Total liabilities and shareholders' equity	$ 1,005,186			$ 895,393			$ 791,059		
Net interest income and margin (2)		$ 42,427	4.34%		$ 37,606	4.28%		$ 30,261	3.91%
Net interest spread (3)			4.01%			4.04%			3.56%

(1) The net amortization of deferred fees on loans included in interest income was $851,000, $2,494,000 and $1,529,000 for the years ended December 31, 2022, 2021 and 2020, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest-bearing liabilitie

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount in the change of each.

Volume and Yield/Rate Variances

	2022 Compared to 2021			2021 Compared to 2020		
	Change Due to			Change Due to		
(Dollars in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Interest-bearing deposits with banks	$ 5	$ 554	$ 559	$ (11,792)	$ 11,765	$ (27)
Taxable investment securities	62	373	435	212	(210)	2
Dividends on FHLB Stock	35	22	57	41	(27)	14
Loans, net	4,923	1,009	5,932	4,572	987	5,559
Total interest income	5,025	1,958	6,983	(6,967)	12,515	5,548
Interest expense:						
Interest-bearing demand deposits	76	470	546	(17)	114	97
Savings and money market	94	134	228	270	(305)	(35)
Time deposits	163	800	963	(361)	(1,452)	(1,813)
FHLB advances	133	292	425	(92)	46	(46)
Subordinated Debt	1	(1)	-	1	(1)	-
Total interest expense	467	1,695	2,162	(199)	(1,598)	(1,797)
Increase in net interest income	$ 4,558	$ 263	$ 4,821	$ (6,768)	$ 14,113	$ 7,345

Provision for Credit Losses

The Bank maintains an allowance for credit losses for expected credit losses that are an incidental part of the banking business. Write-offs of loans are charged against the allowance for credit losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to changes in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for credit losses are made through a charge against income referred to as the "provision for credit losses" or recoveries of previous write-offs.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for credit losses. Management assesses the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in the lending policies and procedures, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries.

The Bank's allowance for credit losses under CECL totaled $14,839,000 or 1.60% of gross loans at December 31, 2022 compared to $12,329,000 or 1.48% of gross loans at December 31, 2021.

For the year ended December 31, 2022, the Bank recorded a $2,683,000 provision for credit losses due to strong loan growth and increased risk in the economy. For the year ended December 31, 2021, the Bank recorded a $1,294,000 provision for credit losses, primarily due to the increase in loans outstanding. See "Balance Sheet – Allowance for Credit Losses," below.

Future provisions for credit losses are dependent on asset quality trends, loan portfolio growth and the general condition of the economy such as a recession or post-pandemic economic impacts. The Bank expects some variability in its quarterly provision for credit losses going forward due to the CECL model's sensitivity to changes in the economic forecast. Also, since a significant portion of the Bank's loan portfolio is collateralized by real estate, the valuation of the underlying collateral can have a significant impact on the adequacy of the allowance for credit losses and specific allocations for impaired loans, which may require additional future credit loss provisions.

Non-interest Income

The following table summarizes non-interest income recorded for the years indicated.

Non-interest Income

	Year Ended December 31,		
(in thousands)	2022	2021	2020
Service charges on deposit accounts	$ 859	$ 858	$ 808
Rental income	199	353	351
Net gain on loan sales	5,839	3,343	2,108
Net gain on securities	4	65	874
Other income	594	282	307
Total non-interest income	$ 7,495	$ 4,901	$ 4,448

Service charges on deposit accounts were $859,000 for the year ended December 31, 2022, compared to $858,000 and $808,000 for the years ended December 31, 2021 and 2020. Although the Bank continues to experience an increase in demand deposits, the service charge for deposit account activity is dependent on volume and types of transactions in the accounts; activity in recent years is not a result of the type of activity that the Bank assess service fees on.

The Bank owns its headquarters building with the capacity to lease about 20% of the office space to nonaffiliated tenants. The building tenant space was fully leased in 2020 and 2021 but had partial vacancy in 2022. Lease income from this office building was $199,000, $353,000, and $351,000 for the years ended December 31, 2022, 2021 and 2020. The leases have annual rent increases.

The Bank operates several loan production offices in California and a few remote offices located in Arizona, Texas, and Washington which primarily focuses on loans partially guaranteed by the Small Business Administration (SBA) or United States Department of Agriculture (USDA). The Bank also generates commercial real estate loans from the loan production offices. Management may sell the guaranteed portion of the loans depending on market opportunities or for liquidity reasons. When a guaranteed portion of a loan is sold, a gain is recognized through a premium received on the sale. Total proceeds from sales of SBA guaranteed balances was $118,230,000 in 2022 with a gain recognized of $5,839,000. Total proceeds from sales of SBA guaranteed balances was

$44,550,000 in 2021 with a gain recognized of $3,343,000. Total proceeds from sales of SBA guaranteed balances was $31,924,000 in 2020 with a gain recognized of $2,108,000.

The increase in net gain on sales of loans in 2022 compared to 2021 and 2020 was primarily due to a higher volume of guaranteed loans sold and was offset by a decrease in the average net gain per loan sold due to rising market rates. Losses inherent in loan relationships are mitigated by the portion of the loan that is guaranteed by U.S. government loan programs. A typical SBA 7(a) loan carries a 75% guarantee while USDA guarantees range from 50% to 90% depending on loan size and type, which reduces the risk profile of these loans. The Bank retains the servicing rights on all SBA loans sold.

Net securities gains can vary significantly from year to year based on the amount of investment securities sold or called and the net gain or loss realized. Additionally, gains or losses are highly dependent on the interest rate environment and its impacts on the fair market value of investment securities. Due to interest rate increases, the Bank had few calls on its government agency and corporate bonds with a net gain of $4,000 and $65,000 in 2022 and 2021, respectively. In 2020, due to the low interest rate environment the Bank had many calls on various government agency and corporate bonds with a net gain of $874,000.

Other income increased to $594,000 in 2022 from $282,000 in 2021. This growth is due to the increase in loan servicing income generated from the higher volume of guaranteed loans sold noted above.

Non-interest Expenses

The following table summarizes non-interest expenses recorded for the years indicated.

Non-interest Expenses

(in thousands)	2022	2021	2020
Salaries and employee benefits	$ 14,651	$ 12,720	$ 10,748
Occupancy and equipment	1,716	1,637	1,605
Other expenses	7,144	5,976	5,318
Total non-interest expenses	$ 23,511	$ 20,333	$ 17,671

Non-interest expenses, also referred to as operating expenses, are commonly expressed as a percentage of average assets for the period and as a percentage of operating revenues, or the efficiency ratio. The efficiency ratio divides the non-interest expenses by total revenues, which is defined as net interest income plus non-interest income, excluding net security gains. The non-interest expenses as a percent of annual average assets for 2022 was 2.3%, 2021 was 2.3%, and 2020 was 2.2%. The efficiency ratio for 2022 was 47.10%, 2021 was 47.91%, and 2020 was 52.23%. The improvement (decrease) in the efficiency ratio in 2022 and 2021 is due to the increase in revenues exceeding the increase in non-interest expense for the year.

Salaries and employee benefits expense increased $1,931,000 or 15% in 2022 compared to 2021 and increased $1,972,000 or 18% in 2021 compared to 2020. The increases were primarily attributable to recording increased SAR and RSA expenses, increase in commissions directly related to the Bank's loan portfolio growth, an increased number of employees hired during each year, and general salary and benefit increases. Annual salaries and bonuses have increased during the years and have been partially offset by deferred loan origination costs attributable to loan generation during the years. The deferred loan origination costs netted against salaries and employee benefits were $3,854,000, $3,539,000, and $3,417,000 for the years ended December 31, 2022, 2021, and 2020, respectively. The Bank employed a total of 113, 107, and 99 employees as of December 31, 2022, 2021, and 2020, respectively.

Occupancy and equipment expenses increased $79,000 or 5% in 2022 compared to 2021 and increased $32,000 or 2% in 2021 compared to 2020. Occupancy expenses include costs incurred with the Bank's owned headquarters building, four leased branch office buildings and three loan production offices.

The following table summarizes the categories of other expenses.

Other Expenses

	Year Ended December 31,		
(in thousands)	2022	2021	2020
Information Technology	$ 1,993	$ 1,828	$ 1,723
Professional fees	852	749	735
Director fees and expenses	908	621	510
Nasdaq listing and regulatory license expense	211	181	192
Advertising and promotion	1,484	959	764
Deposit and other insurance premiums	686	610	515
Loan expense	294	448	294
Postage and delivery	38	31	97
Other expenses	678	549	488
	$ 7,144	$ 5,976	$ 5,318

Information Technology expenses, which are primarily made up of the core service provider, are dependent on the Bank's implementation, upgrades, and maintenance of electronic delivery platforms such as mobile banking, and per account and transaction expenses from the Bank's third party data service provider. These expenses correspond to the increase in the number of new deposit and loan customers.

Professional fees vary depending on the use of legal, audit and consulting services. Director fees and expenses vary dependent on the number of directors, travel expenses incurred by directors for attendance of Board and number of committee meetings, stock-based compensation expenses, and director training expenses. Advertising and promotion expenses are dependent on the Bank's business development activities and targeted nonprofit charity business customers. About $400,000 of the increase in advertising and promotion expenses from 2021 to 2022 is due to increased donations to local charities, including the nonprofit partner program. The nonprofit partner program has significantly grown year over year with pay outs of $670,000, $451,000 and $407,000 for the years ended December 31, 2022, 2021 and 2020, respectively. Miscellaneous other expenses are incurred because of general operations.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated tax rates during the financial period covered. The provision for income taxes for the years ended December 31, 2022, 2021, and 2020 was $6,902,000, $6,182,000, and $4,421,000, respectively. The combined effective Federal and State corporate income tax rates for the years ended December 31, 2022, 2021 and 2020 were 28.9%, 29.6% and 29.6%, respectively. The decrease in the effective tax rate for 2022 is due to the Bank recording a $103,000 low-income housing tax credit and a one-time credit of $86,000 taken for a carryover from the prior year taxes due to a change in estimate.

Balance Sheet

December 31, 2022 and 2021

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Securities classified as held-to-maturity are recorded at amortized cost. At December 31, 2022, investment securities comprised 7.5% of total assets and 7.7% of earning assets. At December 31, 2021, investment securities comprised 7.2% of total assets and 7.4% of earning assets. The Bank's accumulated other comprehensive loss has increased to ($10,019,000) at December 31, 2022, from ($376,000) at December 31, 2021. The significant increase in the Bank's unrealized losses on its AFS investments has been caused by the drastic increase in interest rates in 2022. The Bank has no specific plan to sell any of its securities, does not anticipate it will be required to sell any securities prior to full recovery, and has the intent and ability to hold all securities until full recovery. Because of this, the unrealized losses are anticipated to remain in the equity section of the balance sheet and not impact the income statement.

The Bank limits risk in its investment security portfolio by holding a modest portion of assets in security investments, diversifies investments across various types of securities, diversifies corporate investments across various industries, and limits exposure on corporate debt by capping investments to a maximum of $750,000 per issuer.

Securities classified as available-for-sale were $83,785,000 and $69,367,000 for the 2022 and 2021 respective year ends. Changes in the fair value of available-for-sale securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income," net of tax, and carried as accumulated other comprehensive income within shareholders' equity until realized. The accumulated other comprehensive (loss) income was in an unrealized loss position of $10,019,000 and $376,000 at December 31, 2022 and December 31, 2021, respectively.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At December 31, 2022, investment securities with a fair value of $7,315,000 or 9% of the portfolio, were pledged to secure municipal deposits. This compares to $6,825,000, or 10% of the portfolio pledged at December 31, 2021. At December 31, 2022, securities with a par value of $51,571,000 were callable within one year.

The composition of the investment portfolio by major category and contracted maturities or repricing of debt investment securities at December 31, 2022 and 2021 is shown below.

Investment Securities

	December 31,	
(in thousands)	2022	2021
Available-for-sale (at fair value):		
Government agencies	$ 51,349	$ 39,023
Mortgage-backed securities - residential	8,260	10,496
Corporate debt	24,176	19,848
Total investment securities	$ 83,785	$ 69,367

Contractual Maturity or Repricing Schedule and Weighted Average Yields of Securities As of December 31, 2022

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(in thousands)	Carrying Amount	Yield	Carrying Amount	Yield	Carrying Amount	Yield	Carrying Amount	Yield
Available-for-sale:								
Government agencies	$ -	-	$ 13,961	5.12%	$ 8,649	2.76%	$ 28,739	2.14%
Mortgage-backed securities - residential	-	-	-	-	-	-	8,260	2.28%
Corporate debt	502	4.62%	12,021	2.97%	11,653	3.50%	-	-
Total investment securities	$ 502	4.62%	$ 25,982	4.12%	$ 20,302	3.18%	$ 36,999	2.17%

As of December 31, 2022, the Bank did not own securities to any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total equity at the time of purchase.

Loan Portfolio

Loan categories used in presentations in this report conform to the categorizations used by regulatory Call Reports as described by the instructions issued by the Federal Financial Institutions Examination Council (FFIEC).

The following table shows the composition of the Bank's loan portfolio by amount and percentage of total loans for each major loan category at the dates indicated.

Loans

(in thousands)		December 31, 2022	%		December 31, 2021	%
Commercial & agricultural (1)	$	132,314	14.2%	$	144,969	17.4%
Real Estate - commercial		625,880	67.3%		504,891	60.6%
Real estate - construction and land		65,632	7.1%		67,427	8.1%
Real Estate - single family		62,827	6.8%		65,590	7.9%
Real Estate - multifamily		41,329	4.5%		50,395	6.0%
Consumer & lease financing		564	0.1%		44	0.0%
		928,546	100%		833,316	100%
LESS:						
Allowance for Loan Losses		(14,839)			(12,329)	
Total Loans, Net	$	913,707		$	820,987	

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $5,822 as of December 31, 2022 and $16,957 as of December 31, 2021.

The Bank experienced increased loan demand in 2022 and 2021. The 11% increase in net loans outstanding at December 31, 2022 compared to December 31, 2021, was primarily from the origination of real estate – commercial loans.

At December 31, 2022, the Bank had approximately $94,008,000 in undisbursed loan commitments, of which approximately $38,666,000 related to real estate loan types. This compares with undisbursed commitments of approximately $149,514,000 at December 31, 2021, of which approximately $94,614,000 related to real estate loan types. At December 31, 2022 and 2021, there were $16,039,000 and $4,233,000, respectively, in standby letters of credit outstanding.

The following table shows the maturity distribution of Real Estate Construction and Land and Commercial & Agricultural loans, including rate repricing intervals on variable rate loans, at December 31, 2022. In the following table, the term variable (generally referring to loans for which the interest rate will change immediately given a change in the underlying index) also includes loans with adjustable rates (loans for which the rate may change, but which are also limited in occurrence).

Loan Portfolio Maturity Structure at December 31, 2022

(in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Real Estate - construction and land	31,287	24,043	10,302	65,632
Commercial & agricultural	29,214	41,193	61,907	132,314
Total	60,501	65,236	72,209	197,946
Loans with:				
Fixed interest rates	4,439	29,296	71,816	105,551
Floating interest rates	56,062	35,940	393	92,395
Total	60,501	65,236	72,209	197,946

Loan Policies and Procedures

The Bank’s underwriting practices include an analysis of the borrower’s management, current economic factors, the borrower’s ability to respond and adapt to economic changes outside its direct control and verification of primary and secondary sources of repayment. Risk within the loan portfolio is managed through the Bank’s loan policies and underwriting. These policies are reviewed and approved annually by the Board of Directors.

- Management administers the credit policy, ensures proper loan documentation is maintained and develops the methodology for monitoring loan quality and the level of the allowance for credit losses and reports on these matters to the Board of Directors' Loan Committee and the Board of Directors.

- The Board of Directors' Loan Committee meets regularly to evaluate problem assets and the adequacy of the allowance for credit losses. The Committee also reviews and makes recommendations to the Board of Directors regarding the adequacy of the allowance for credit losses, and is responsible for ensuring that an independent third party reviews the loan portfolio at least annually. Resultant reports are sent to this Committee and to the Audit Committee.

- The Board of Directors' Loan Committee is responsible for enforcement of the credit policy and has additional responsibilities which include approving loans or loan relationships for a customer that, when considered in the aggregate, exceed management's level of loan authority for that customer.

- The Board of Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with the Bank's policies.

- The Board of Directors retains overall responsibility for all loan functions and reviews material loan relationships.

Loan approvals are granted according to established policies, and lending officers are assigned approval authorities within their levels of training and experience. Interest rates reflect the risk inherent in loans and collateral is generally taken for purchase-money financing. Collateral may consist of accounts receivable, direct assignment of contracts, inventory, equipment and real estate. Unsecured loans may be made when warranted by the financial strength of the borrower.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the original terms of the obligation and consist of nonaccrual loans and accruing loans past due 90 days or more. Additionally, loans may be restructured due to deteriorating financial conditions and classified as troubled debt restructurings (TDRs). The TDRs may or may not be the same as those listed as nonaccrual or 90 days or more past due loans.

The following are the nonperforming assets for the respective periods:

Nonperforming Assets

	December 31,	
(in thousands)	2022	2021
Nonaccrual loans	$ 3,756	$ 322
Accruing loans past due 90 days or more	-	165
Total nonperforming loans	3,756	487
Total nonperforming assets	$ 3,756	$ 487
Nonperforming loans to total loans	0.40%	0.06%
Nonperforming assets to total assets	0.34%	0.05%
Allowance for credit losses to nonperforming loans	395.09%	2532.64%

Nonperforming loans at December 31, 2022, consisted of two loans and are primarily secured by real estate collateral. The nonperforming loans represent 0.34% of total assets at December 31, 2022. The Bank had no specific allowance for credit losses allocated to these loans due to the estimated value of underlying collateral.

There was no other real estate owned at December 31, 2022 and 2021.

The Bank may modify terms of loans to provide borrowers with relief if they are experiencing financial difficulty and may not be able to meet the original terms of the loan. These modifications classify the loan as a TDR. Loans that are classified as TDRs were $1,002,000 at December 31, 2022, of which all were considered performing loans. These TDRs are primarily collateralized by single-family residential or commercial real estate properties.

The Bank elected to account for eligible loan modifications under Section 4013 of the CARES Act, as amended. To be an eligible loan under Section 4013, 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, 2020; 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 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 are placed on non-accrual status.

Allowance for Credit Losses

The Bank maintains the allowance for credit losses to provide for expected credit losses in the loan portfolio. Effective January 1, 2021, the Bank adopted the provisions of Accounting Standards Codification ("ASC") 326 – *Financial Instruments-Credit Losses*, which requires the Bank to record an estimate of expected lifetime credit losses for loans and off-balance sheet loan commitments at the time of origination or acquisition. This new methodology is referred to as the "currently expected credit loss", or "CECL", methodology. Prior to adoption, the Bank used the methodology in ASC 450 – *Contingencies* and ASC 310 – *Receivables* to record an allowance for loan losses. Upon adoption of CECL, the Bank recorded a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year equal to the difference between the amount of credit loss allowances under the previous methodology and the amount then required under CECL. In 2018, the federal banking regulators (the Federal Reserve, the OCC and the FDIC) adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital. The Bank has recognized a one-time cumulative-effect adjustment on January 1, 2021 by recording a $1,575,000 reduction in retained earnings, an increase in the allowance reserve of $2,250,000 and an increase in the deferred tax asset of $675,000.

In 2018, the federal banking regulators (the Federal Reserve, the OCC and the FDIC) adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital. The Bank elected to record a one-time adjustment at adoption and did not elect to phase in over a three-year period.

Additions to the allowance for credit losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case-by-case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where the Bank believes it is inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for credit losses. Management assesses the allowance for credit losses monthly and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated life-of-loan loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions and reasonable and supportable forecasts at the local, state and national level, and a migration analysis of historical losses and recoveries.

In addition to the allowance for credit losses, the Bank also maintains a reserve for losses for undisbursed loan commitments which is reported in other liabilities on the balance sheets.

The following table sets forth an analysis of the allowance for credit losses and provision for credit losses for the periods indicated.

Summary of Activity in the Allowance for Credit Losses

(Dollars in thousands)	Year Ended December 31	
	2022	2021
Balance at beginning of period	$ 12,329	$ 8,882
Charge-offs:		
Commercial & agricultural	(211)	(133)
Real estate - commercial	-	-
Real estate - construction and land	-	-
Real Estate - single family	-	-
Real Estate - multifamily	-	-
Consumer & lease financing	-	-
Total loans charged-off	(211)	(133)
Recoveries:		
Commercial & agricultural	38	36
Real estate - commercial	-	-
Real estate - construction and land	-	-
Real Estate - single family	-	-
Real Estate - multifamily	-	-
Consumer & lease financing	-	-
Total recoveries	38	36
Net loans charged-off	(173)	(97)
Impact of CECL Adoption	-	2,250
Provision for credit losses	2,683	1,294
Allowance for credit losses - end of period	$ 14,839	$ 12,329
Loans:		
Average loans outstanding during period, net of unearned income	$ 869,201	$ 776,040
Total loans at end of period, net of unearned income	$ 928,546	$ 833,316
Ratios:		
Net loans (charged-off) recovered to average net loans	(0.02)%	(0.01)%
Net loans (charged-off) recovered to total loans	(0.02)%	(0.01)%
Allowance for credit losses to average net loans	1.71%	1.59%
Allowance for credit losses to total loans	1.60%	1.48%
Net loans (charged-off) recovered to provision for credit losses	(6.45)%	(7.50)%

The following table summarizes the allocation of the allowance for credit losses by loan category and the amount of loans in each category as a percentage of total loans in each category as of the end of each year presented. The allocated portions of the allowance for credit losses are available to the entire portfolio.

Allocation of Allowance for Credit Losses

	Year Ended December 31,			
	2022		2021	
(in thousands)	**Allowance Allocation**	**Amount of Category Loans to Total Loans**	**Allowance Allocation**	**Amount of Category Loans to Total Loans**
Commercial & agricultural	972	14.2%	$ 820	17.4%
Real estate - commercial	5,858	67.3%	5,168	60.6%
Real estate - construction and land	6,748	7.1%	4,585	8.1%
Real estate - single family units	558	6.8%	690	7.9%
Real estate - multifamily	462	4.5%	916	6.0%
Consumer & lease financing	241	0.1%	150	0.0%
Total	$ 14,839	100%	$ 12,329	100%

The allowance allocation is highly dependent on the current loan balance, net charge-off rate, and contractual loan terms, adjusted for expected prepayments when appropriate. The specific loan pools evaluated at one period versus another can result in variations in the allocations. Different loan pools have different loss expectations in rising rate environments and at times of economic uncertainty. For the period ending December 31, 2022, the real estate – construction and land, real estate – commercial, commercial & agricultural, and consumer & lease financing pools had an increase in the allowance allocated due to economic trends and outlook. For the period ending December 31, 2022, the real estate – single family units, real estate – multifamily pools had a decrease in the allowance allocated attributable to the reduced amount of loans in those pools.

In addition to the allowance for credit losses, the Bank maintains an allowance for losses for undisbursed loan commitments, which is reported in other liabilities on the balance sheets. This allowance was $435,000 at December 31, 2022 and $577,000 at December 31, 2021.

Other Assets

Deferred income taxes were $2,296,000 and $1,875,000 in 2022 and 2021, respectively. There were $421,000 in low-income housing tax credits recorded in 2022 and a one-time entry of $675,000 in 2021 as part of the CECL Implementation.

Other assets also included the right of use assets which totaled $1,362,000 at December 31, 2022 compared to $1,205,000 at December 31, 2021.

In addition, the Bank invested in a limited partnership that was formed to develop and operate affordable housing projects for low or moderate-income tenants. 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. As of December 31, 2022 this investment totaled $8,881,000.

Deposits

Deposits are the Bank's primary source of funds. The Bank developed a plan to attract and retain local customers and increase core deposits. This plan is being implemented by way of process improvements, upgrading technologies, training staff and enhancing the overall customer experience.

The following table sets forth total deposits by type.

Deposits by Type

	Year Ended December 31,			
	2022		2021	
	Balance	% of Total	Balance	% of Total
Demand Accounts	$ 395,800	41.1%	$ 382,113	47.1%
Savings and Money Market	204,479	21.2%	238,619	29.4%
Time Deposits	362,376	37.6%	190,868	23.5%
Total Deposits	$ 962,655		$ 811,600	

The Bank's strategy is to increase its funding from local deposits and to lower its dependence on institutional funding such as brokered time deposits, FRB borrowings and FHLB borrowings. Strategies employed to increase local deposits include a non-profit business account that provides annual donation awards for average balances, bundling non-maturity and time deposit products with competitive rates, promoting 12-month term time deposits, and continued focus on increasing customer retention and new customers through training staff.

The Bank offers local depositors with deposits in excess of $250,000 and who are concerned with FDIC insurance limits, a deposit placement service through a program called CDARS and ICS. Through this program amounts in excess of $250,000 can be placed in certificates of deposit or demand accounts at other institutions and the Bank receives reciprocal deposits from other institutions within the network. At December 31, 2022 and 2021, there were $81,919,000 and $15,592,000 in CDARS time deposits and $90,191,000 and $85,682,000 and in ICS demand deposits, respectively. In addition to these deposits, the Bank had $55,116,000 and $58,266,000 at December 31, 2022 and 2021, respectively, in wholesale brokered deposits. The Bank has been replacing its brokered deposit maturities with local deposits and plans to continue replacing brokered deposits with local deposits as the brokered deposits mature. To the extent local deposits are not available to the Bank in the shorter-term, the Bank may gap fund with FHLB overnight borrowings. In the longer term, the Bank has access to secured lines of credits at the FHLB and FRB totaling $290,168,000 and an unsecured line at a correspondent bank totaling $15,000,000. As of December 31, 2022, the Bank also had $76,470,000 in investment securities that it could pledge for additional sources of liquidity.

The following table sets forth the average balances by deposit category and the interest cost for the periods indicated.

Average Deposit Balances and Rates Paid

	Year Ended December 31,					
	2022		2021		2020	
(in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non interest-bearing demand deposits	$248,795		$224,668		$181,504	
Interest-bearing demand deposits	147,340	0.52%	115,061	0.19%	74,136	0.16%
Savings and money market	222,293	0.67%	207,313	0.60%	167,720	0.77%
Time certificates under $100,000	82,481	0.81%	88,119	0.67%	84,794	1.22%
Time certificates $100,000 or over	139,456	1.45%	115,918	0.99%	140,511	1.79%
Total deposits	$840,365	0.59%	$751,079	0.43%	$648,665	0.76%

The following table sets forth the maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2022 and 2021.

Maturity of Time Deposits of $100,000 or More

(in thousands)	December 31, 2022	December 31, 2021
Time deposits of $100,000 or more maturing in:		
Three months or less	$ 40,256	$ 41,300
Over three through six months	60,367	13,375
Over six to twelve months	165,618	24,925
Over twelve months	47,049	27,980
Total time deposits of $100,000 or more	$ 313,290	$ 107,580

Borrowings

Borrowings were $41,000,000 and $48,500,000 at December 31, 2022 and 2021, respectively. Borrowings consisted of FHLB advances. Management utilizes FHLB advances when the terms are deemed advantageous compared to raising time deposits or brokered deposits and to manage overall liquidity. The increase in FHLB advances was the result of the bank leveraging FHLB funds more than broker deposits.

The Bank also has an open letter of credit that was issued by the FHLB on July 1, 2021 totaling $15,192,000. The balance on this letter of credit remained at $15,192,000 at December 31, 2022 and 2021. This letter of credit reduces the Bank's remaining borrowing capacity.

In 2019, the Bank issued $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 are reported net of any debt issuance cost which totaled $95,000 and $109,000 at December 31, 2022 and 2021, respectively.

ITEM 6A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank continuously monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Risks associated with interest rate changes and market risk are managed through the Bank's Asset and Liability Policy. This policy is reviewed and approved annually by the Board of Directors, and oversight is provided by the Asset Liability Committee of the Board. Management responds to all of these to protect and possibly enhance net interest income, while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits, and borrowings in the ways described above. Risks associated with interest rate changes and market risk are managed through the Bank's Interest Rate Risk Management Policy. This policy is reviewed and approved at least annually by the Board. The Board also monitors and establishes target positions for interest rate and market value risks through the Asset Liability Committee of the Board.

The tool most used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of an interest rate shock for incremental interest rate changes up to +/- 4.00% is modeled quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

Based on results of the quarterly model, the Bank is asset sensitive during a one- and two-year period, meaning that during that timeframe, more assets will reprice than liabilities. Asset sensitive banks typically expect an increase in the net interest margin if rates increase and the net interest margin would decline when rates decline. If the Bank were liability sensitive, the opposite would occur and the bank would generally expect an increase in the net interest margin if interest rates decline and the net interest margin to decline when rates increase. Various factors influence the change in the Bank's margin when general market interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, the extension or contraction of maturities of new and renewed assets and liabilities, the shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there is an immediate impact from loans that are tied to a daily prime lending or other index rate. The repricing of liabilities to offset this change requires time for deposits to mature and renew.

At December 31, 2022, the computer simulation model for a +2.00% interest rate shock results in the Bank's net interest income for a twelve-month period increasing by 8.36% or $3,824,000. A negative 2.00% interest rate shock results in the Bank's net interest income for a twelve-month period decreasing by -9.71% or $(4,440,000). Computer simulation models use information from the Bank's loan and deposit system at a static point in time and bases the repricing of assets and liabilities on contractual terms, and certain assumptions as to movements of various rate indexes and management assumptions regarding when to reprice certain portfolios not linked to an index. The actual results experienced from interest rate changes can vary from the results of the simulation.

The Bank uses the economic value of equity ("EVE") ratio to stress test longer-term interest rate risk exposure on capital. Stress testing EVE will show the impact that fluctuating interest rates will have on the Bank's capital and give insight into the Bank's earning capacity and risk. This ratio is calculated by taking the difference in the net present value of asset cash flows (loan and investment securities) and liability cash flows (deposits and borrowings). Major assumptions used in determining fair values include maturities, repricing periods, and decay rates of non-maturity deposits. As the calculation is highly dependent on assumptions, as well as the change in the shape of the yield curve being modeled, it is not considered to be an exact calculation and instead is used as an interest rate risk monitoring tool. As of December 31, 2022, the computer simulation model for a +2.00% non-parallel interest rate shock results in a -2.40% decrease in EVE and a negative 2.00% non-parallel interest rate shock results in a 5.08% increase in EVE.

When preparing the model, the Bank makes significant assumptions about the lag in the rate of change and impacts of optionality in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks and tests the validity of its assumptions by reviewing actual results with past projected expectations annually. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact of changing interest rates so management can monitor exposures to interest rate risk and make adjustments to the balance sheet if needed.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of lending and investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, federal funds sold, other short-term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB, FRB and access to brokered certificates of deposits are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank's liquid assets, defined as cash, deposits with banks, Federal funds sold and unpledged investment securities, totaled $154,037,000 and $103,241,000 at December 31, 2022 and December 31, 2021, respectively, and constituted 14% and 11% of total assets as of December 31, 2022 and December 31, 2021, respectively.

At December 31, 2022, the Bank had $253,721,000 in borrowing lines of credit capacity from FHLB, FRB and correspondent banks with $41,000,000 in outstanding advances from FHLB and $15,192,000 in a letter of credit from the FHLB. At December 31, 2021, the Bank had $277,106,000 in borrowing lines of credit capacity from FHLB, FRB and correspondent banks with $48,500,000 in outstanding advances from FHLB and $15,192,000 in a letter of credit from the FHLB.

The primary sources of cash during 2022, 2021 and 2020 were from cash generated from operating activities, increase in time deposits, sales of SBA loans and calls and maturities of investment securities. Primary uses of cash were for loan originations and investment securities purchases.

In 2022, cash was primarily provided by a $171,508,000 increase in time deposits and $118,230,000 in proceeds on the sale of loans. Cash was used in 2022 primarily to fund $203,089,000 of loan originations, purchases of $30,526,000 of new available-for-sale investment securities and $20,453 net change in demand, savings and money market deposit accounts.

In 2021, cash was primarily provided by $123,718,000 increase in demand, savings and money market deposits primarily from the PPP loan program retaining deposits at the Bank, $44,550,000 in proceeds on the sale of loans and $30,944,000 in calls and maturities of investment securities. Cash was used in 2021 primarily to fund $113,766,000 of loan originations, $38,413,000 net change in certificate of deposits and purchases of $34,679,000 of new available-for-sale investment securities.

In 2020, cash was primarily provided by $141,811,000 increase in demand, savings and money market deposits primarily from the PPP loan program retaining deposits at the Bank, $53,908,000 in calls and maturities of investment securities, $31,924,000 in proceeds on sale of loans and $10,647,000 increase in certificate of deposits. Cash was used in 2020 primarily to fund $196,361,000 of loan originations which includes $96,710,000 of PPP loans and purchases of $65,908,000 of new available-for-sale investment securities.

For additional information, please see the Statements of Cash Flows in Item 7 of this Form 10-K.

The Board of Directors believes that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. The policy of the Board of Directors is to maintain sufficient capital at not less than the "well-capitalized" thresholds established by banking regulators. As of December 31, 2022 and 2021, the Bank maintained capital ratios in excess of regulatory requirements.

Shareholders' equity also includes the Bank's accumulated other comprehensive (loss) income, net of taxes of $(10,019,000) at December 31, 2022 and $(376,000) at December 31, 2021. Other comprehensive income reflects the fair value adjustment, net of tax, of investment securities classified as available-for-sale. This will fluctuate based on the amount of securities classified as available-for-sale, types of investment securities, and changes in market interest rates. Total shareholders' equity was $88,546,000 at December 31, 2022 and $84,282,000 at December 31, 2021.

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total capital ratio of 8.0%, common equity Tier 1 capital ratio of 4.5%, and Tier 1 risk-based capital (primarily shareholders' equity) of at least 6.0% of risk-weighted assets. The Bank had a total capital ratio of 11.3% and common equity Tier 1 capital and Tier 1 risk-based capital ratios of 9.4% at December 31, 2022, placing its capital ratios in excess of the minimum required to be considered "well-capitalized" under the regulatory guidelines.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average assets. The minimum ratio for top-rated institutions may be as low as 4%. However, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 4% minimum. As of December 31, 2022, the Bank's leverage ratio was 8.5%. Capital levels for the Bank remain above established regulatory capital requirements. The Bank excludes other comprehensive income for regulatory capital computations.

Quarterly dividends are paid out of retained earnings. The Bank paid $0.48 per share or $3,226,000, in dividends on common stock during 2022. The California Financial Code restricts total dividend payment of any bank in any calendar year without permission of the DFPI, 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 Bank's dividend payments during 2022 were within these limits.

Although the Bank's regulatory capital ratios are in excess of requirements and notwithstanding the requirements of the California Financial Code, the Board of Directors reviews and declares dividends on a quarterly basis and there is no assurance that future dividends will be declared.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

SUMMIT STATE BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022 AND 2021

AND FOR THE YEARS ENDED

DECEMBER 31, 2022, 2021 and 2020

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 "Company") as of December 31, 2022 and 2021, the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, 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 as of December 31, 2021 and 2020, have been restated.

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 as of December 31, 2022, was $14.8 million on a total loan portfolio of $929 million. 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 application of reasonable and supportable forecasts, and qualitative factors used in the allowance for credit losses on loans, as critical audit matter. In estimating the allowance for credit losses on loans, the Company utilizes relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company considers multiple economic forecast scenarios based on economic indicators from the Office of the Comptroller of the Currency's Dodd-Frank Act Stress Test to determine the appropriate level of life of loan loss reserve. Each individual economic forecast scenario is weighted based on an evaluation of current and expected economic activity. This process requires significant management judgement. In turn, auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

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

- Testing the completeness and accuracy of the data used in the allowance for credit losses on loans, including application of forecasted economic scenarios determined by management and application of forecasted scenario weights determined by management used in the calculation.

- 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 economic scenario weighting 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.

- Analytically reviewing the allowance for credit losses on loans to total portfolio loans for reasonableness.

/s/ Moss Adams LLP

Sacramento, California
March 22, 2023
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 an assessment of the effectiveness of internal control over financial reporting as of December 31, 2022, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In November 2022, management determined that the Bank did not maintain effective control over the classifications within the Statements of Cash Flows. On November 17, 2022, the Bank’s Board of Directors authorized management to restate the Bank’s previously issued audited annual 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 (the “Affected Financial Statements”). Accordingly, management has concluded that the control deficiency that resulted in the misclassification of “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 Statements of Cash Flows for the Affected Financial Statements constituted a material weakness as of December 31, 2021. Solely as a result of this material weakness, management revised its earlier assessment and updated its conclusion that the Bank’s internal control over financial reporting was not effective as of December 31, 2021.

Remediation Plan and Status

Management determined that an existing control did not operate as intended which resulted in the existence of a material weakness. Accordingly, management added additional reviews of Bank’s quarterly financial statements. A summary of all reclassifications are provided to the Bank’s Audit Committee quarterly and include a summary of the reason for the classification change and what specific accounting guidance or rule the change applies to in order to ensure proper interpretation and reporting has taken place.

These remediated controls have been implemented for a sufficient period of time, two consecutive quarters, and has been validated through testing to ensure they are operating effectively. We believe the measures described above remediate this material weakness and strengthened 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 certain remediation measures described above.

Changes in Internal Control Over Financial Reporting

There was one change in the Bank’s internal control over financial reporting identified in connection with management’s evaluation that occurred before the year ending December 31, 2022.

Management implemented a change in internal controls over financial reporting while preparing the interim financial information for the third quarter of 2022 and for the year ended December 31, 2022. This change was successfully implemented to remediate a material weakness related to a reclassification within its financial statements dating back to December 31 2021.

Based on the Bank's assessment of the overall control environment and updates to remediate the material weakness noted above, management concludes the control system is deemed to be effective to provide materially correct presentation of the Bank's financial statements and financial disclosures. No other material weaknesses in the Bank's internal controls have been identified by management for the year-ended December 31, 2022. Based on this assessment, management concludes that the Company maintains effective internal control over financial reporting as of December 31, 2022.

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, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 77,567	$ 40,699
Investment securities:		
Available-for-sale (at fair value; amortized cost of $98,017 in 2022 and $69,902 in 2021)	83,785	69,367
Loans, less allowance for credit losses of $14,839 and $12,329	913,707	820,987
Bank premises and equipment, net	5,461	5,677
Investment in Federal Home Loan Bank (FHLB) stock, at cost	4,737	4,320
Goodwill	4,119	4,119
Affordable housing tax credit investments	8,881	3,500
Accrued interest receivable and other assets	17,086	9,411
Total assets	$ 1,115,343	$ 958,080
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 252,033	$ 234,824
Demand - interest-bearing	143,767	147,289
Savings	67,117	69,982
Money market	137,362	168,637
Time deposits that meet or exceed the FDIC insurance limit	141,691	29,255
Other time deposits	220,685	161,613
Total deposits	962,655	811,600
Federal Home Loan Bank advances	41,000	48,500
Junior subordinated debt, net	5,905	5,891
Affordable housing commitment	4,677	2,483
Accrued interest payable and other liabilities	12,560	5,324
Total liabilities	1,026,797	873,798
Commitments and contingencies		
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 6,732,699 in 2022 and 6,684,759 in 2021 (1)	37,179	37,014
Retained earnings	61,386	47,644
Accumulated other comprehensive loss, net of tax	(10,019)	(376)
Total shareholders' equity	88,546	84,282
Total liabilities and shareholders' equity	$ 1,115,343	$ 958,080

(1) 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,		
	2022	2021	2020
Interest and dividend income:			
Interest and fees on loans	$ 46,124	$ 40,192	$ 34,633
Interest on deposits with banks	596	37	65
Interest on investment securities	1,935	1,500	1,498
Dividends on FHLB stock	301	244	229
Total interest income	48,956	41,973	36,425
Interest expense:			
Deposits	4,942	3,205	4,956
Federal Home Loan Bank advances	1,212	787	833
Junior subordinated debt	375	375	375
Total interest expense	6,529	4,367	6,164
Net interest income before provision for loan losses	42,427	37,606	30,261
Provision for credit losses on loans (1)	2,683	1,294	2,100
Reversal of credit losses on unfunded loan commitments (1)	(142)	-	-
Net interest income after provision for (reversal of) credit losses on loans and unfunded loan commitments	39,886	36,312	28,161
Non-interest income:			
Service charges on deposit accounts	859	858	808
Rental income	199	353	351
Net gain on loan sales	5,839	3,343	2,108
Net gain on securities	4	65	874
Other income	594	282	307
Total non-interest income	7,495	4,901	4,448
Non-interest expense:			
Salaries and employee benefits	14,651	12,720	10,748
Occupancy and equipment	1,716	1,637	1,605
Other expenses	7,144	5,976	5,318
Total non-interest expense	23,511	20,333	17,671
Income before provision for income taxes	23,870	20,880	14,938
Provision for income taxes	6,902	6,182	4,421
Net income	$ 16,968	$ 14,698	$ 10,517
Basic earnings per common share (2)	$ 2.54	$ 2.20	$ 1.58
Diluted earnings per common share (2)	$ 2.54	$ 2.20	$ 1.57
Basic weighted average shares of common stock outstanding (2)	6,687	6,680	6,677
Diluted weighted average shares of common stock outstanding (2)	6,687	6,682	6,680

(1) Allowance in 2022 and 2021 reported using current expected credit loss ("CECL") method, all 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,		
	2022	2021	2020
Net income	$ 16,968	$ 14,698	$ 10,517
Change in securities available-for-sale:			
Unrealized holding (losses) gains on available-for-sale securities arising during the period	(13,694)	(2,084)	1,844
Reclassification adjustment for (gains) losses realized in net income on sales of available-for-sale securities	(4)	(65)	(874)
Net unrealized (losses) gains, before provision for income tax	(13,698)	(2,149)	970
Income tax benefit (expense)	4,055	635	(289)
Total other comprehensive (loss) income, net of tax	(9,643)	(1,514)	681
Comprehensive income	$ 7,325	$ 13,184	$ 11,198

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)

				Accumulated	Total
				Other	
	Common Stock		Retained	Comprehensive	Shareholders'
	Shares	Amount	Earnings	Income (Loss)	Equity
Balance, January 1, 2020	6,070	$ 36,981	$ 29,906	$ 457	$ 67,344
Net income			10,517		10,517
Other comprehensive income, 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			(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
Net income			16,968		16,968
Other comprehensive loss, net of tax				(9,643)	(9,643)
Restricted stock granted	50				
Restricted stock forfeited	(2)				
Stock-based compensation - restricted stock		165			165
Cash dividends - $0.48 per share			(3,226)		(3,226)
Balance, December 31, 2022	6,733	$ 37,179	$ 61,386	$ (10,019)	$ 88,546

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

SUMMIT STATE BANK
STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2022	2021 (Restated)	2020 (Restated)
Cash flows from operating activities:			
Net income	$ 16,968	$ 14,698	$ 10,517
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	391	408	433
Securities amortization and accretion, net	110	236	131
Accretion of net deferred loan fees	(4,705)	(6,033)	(4,946)
Provision for credit losses on loans (1)	2,683	1,294	2,100
Reversal of credit losses on unfunded loan commitments (1)	(142)	-	-
Net gain on securities	(4)	(65)	(874)
Net gain on loan sales	(5,839)	(3,343)	(2,108)
Amortization of debt issuance cost related to junior subordinated debt	14	15	14
Amortization of affordable housing tax credit investment	319	-	-
Net change in accrued interest receivable and other assets	(3,620)	(506)	(1,505)
Net change in accrued interest payable and other liabilities	6,929	310	(92)
Share-based compensation expense	614	460	62
Net cash from operating activities	13,718	7,474	3,732
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(30,526)	(34,679)	(65,908)
Proceeds from calls of held-to-maturity investment securities	-	-	8,000
Proceeds from calls and maturities of available-for-sale investment securities	2,304	30,944	53,908
Purchase of Federal Home Loan Bank stock	(417)	(891)	(87)
Purchases of bank premises and equipment, net	(175)	(91)	(126)
Loan origination and principal collections, net	(203,089)	(113,766)	(196,361)
Proceeds from sales of loans other than loans originated for resale	118,230	44,550	31,924
Cash paid for affordable housing tax credit investment	(3,506)	(1,017)	-
Net cash used in investing activities	(117,179)	(74,950)	(168,650)
Cash flows from financing activities:			
Net change in demand, savings and money market deposits	(20,453)	123,718	141,811
Net change in certificates of deposit	171,508	(38,413)	10,647
Net change in short term Federal Home Loan Bank advances	-	-	(33,100)
Long Term Advances from Federal Home Loan Bank	-	-	46,000
Repayment of Long Term Advances from Federal Home Loan Bank	(7,500)	(5,000)	(5,000)
Dividends paid on common stock	(3,226)	(2,989)	(2,913)
Proceeds from exercise of stock options	-	33	-
Net cash from financing activities	140,329	77,349	157,445
Net change in cash and cash equivalents	36,868	9,873	(7,473)
Cash and cash equivalents at beginning of year	40,699	30,826	38,299
Cash and cash equivalents at end of period	$ 77,567	$ 40,699	$ 30,826
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 6,443	$ 4,593	$ 6,143
Income taxes	$ 5,646	$ 5,690	$ 5,690
Noncash investing activities:			
Net unrealized (losses) gains on available-for-sale securities	$ (13,698)	$ (2,149)	$ 970
Cumulative effect of CECL adoption	$ -	$ 1,575	$ -
Affordable housing tax credit investment	$ 5,700	$ -	$ -
Affordable housing tax credit commitment	$ (5,700)	$ -	$ -

(1) Allowance in 2022 and 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.

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.

As restated and included in the Bank's Financial Statements as of December 31, 2022 and 2021, and for the three years ended December 31, 2022, the Statements of Cash Flows properly classify “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 of the current or prior balance sheets or income statements.

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)

Reclassification

For the years ended December 31, 2022, 2021 and 2020 no reclassifications have occurred outside of the restatement noted in the section above.

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, fair values of investment securities, and the determination of potential impairment of the affordable housing tax credit investment 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. 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 December 31, 2022, 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 years ended December 31, 2022 and 2021. Accrued interest receivable on AFS debt securities totaled $559,000 at December 31, 2022 and $363,000 at December 31, 2021 and were 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, 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, and collateral dependent loans that are individually evaluated for a required allowance for credit losses. 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.

Allowance and Provision for Credit Losses – Loans and Leases

Effective January 1, 2021, 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, and treasury yields.

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 loan types. 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, 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 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) is 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 and Severely Adverse 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. The Bank will forecast out for 13 quarters and revert back to a straight-line historical average beyond this timeframe. 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 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.

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

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, 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 310, 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, 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.

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 provision for credit losses in the statements of income. The Unfunded Reserve is updated each reporting period and 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.

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.

Leases

The Bank leases real estate properties under long-term non-cancelable operating leases, most of which include escalation clauses and one or more options to extend the lease term, and some of which contain lease termination clauses. Only those renewal and termination options that management determines are reasonably certain of exercising are included in the calculation of the lease liability. In addition, the Bank leases photocopier equipment under finance leases. The equipment finance lease terms do not contain bargain purchase options or residual value guarantees. The Bank did not have any significant short-term leases during the reported periods.

Lease right-of-use assets represent the right to use the underlying asset while lease liabilities represent the present value of future lease obligations. The Bank elected not to separate non-lease components from lease components and to exclude short-term leases (i.e., lease term of 12 months or less at the commencement date) from right-of-use assets and lease liabilities for all lease classifications. When calculating the lease liability, because most lease contracts do not contain an implicit interest rate, the Bank discounts lease payments over a lease's expected term based on the collateralized Federal Home Loan Bank borrowing rate that was commensurate with lease terms and minimum payments at the lease commencement date. The discount rate is not subject to change during the life of the lease unless the lease period is modified. Right-of-use assets for operating leases are amortized over the lease term by amounts that represent the difference between periodic straight-line lease expense and periodic interest accretion on the related liability, whereas finance leases are amortized on a straight-line basis over the term of the lease. Expense recognition for operating leases is recorded on a straight-line basis while expense recognition for finance leases represents the sum of periodic amortization of the associated right-of-use asset and the interest accretion on the lease liability. Refer to Note 5, Leases, for further information.

Cash payments from subleases 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 property are recorded separate from the income as an expense.

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 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, separate from the associated loan balances, The Bank has also elected to 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.

Investment in Low Income Housing Tax Credit Funds

The Bank invested in a limited partnership that was formed to develop and operate affordable housing projects for low or moderate-income tenants. The investment fund covers four separate housing projects and the Bank's ownership percentage in the fund is 13%. 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. The investment totaled $8,881,000 and $3,500,000 at December 31, 2022 and December 31, 2021, respectively. The unfunded commitments for low-income housing tax credit funds totaled $4,677,000 and $2,483,000 at December 31, 2022 and December 31, 2021, respectively. The Bank did not recognize any impairment losses on these low-income housing tax credit investments during the year ending December 31, 2022 and 2021 as the value of the future tax benefits exceeds the carrying value of the investments.

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, 2022 and December 31, 2021 and for the three years ended December 31, 2022 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, excluding unvested restricted stock awards (RSAs). Diluted EPS reflects the potential dilution that could occur if contracts to issue common stock, such as stock options or RSAs, result in the issuance of common stock which shares in the earnings of the Bank. Diluted EPS is computed by dividing income available to common shareholders by the weighted-average common shares outstanding plus the weighted average number of dilutive shares for the period. Holders of unvested restricted stock awards receive forfeitable dividends at the same rate as common shareholders. There were no stock options or unvested restricted stock awards that were considered dilutive in computing diluted earnings per share for the years ended December 31, 2022 or 2021.

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 because of the stock dividend, increasing its total shares outstanding to 6,684,759 on the record date. 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)	2022	2021	2020
Basic			
Net income available for common shareholders	$ 16,968	$ 14,698	$ 10,517
Weighted average common shares outstanding (1)	6,687	6,680	6,677
Basic earnings per common share (1)	$ 2.54	$ 2.20	$ 1.58
Diluted			
Net income available for common shareholders	$ 16,968	$ 14,698	$ 10,517
Weighted average common shares outstanding for basic earnings per common share (1)	6,687	6,680	6,677
Add: Dilutive effects of assumed exercises of stock options	-	2	3
Average shares and dilutive potential common shares (1)	6,687	6,682	6,680
Diluted earnings per common share (1)	$ 2.54	$ 2.20	$ 1.57

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

Stock-Based Compensation

Compensation cost is recognized for stock options, stock appreciation rights ("SARs"), and restricted stock awards ("RSAs") granted to eligible employees and directors, 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 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 SARs that the Bank issued require settlement in cash, 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 quarter at fair value. Changes in the fair value of the awards from quarter to quarter are classified in salaries and employee benefits.

Stock options and RSAs 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 unless the terms of the awards are subsequently modified. RSA expenses are accrued quarterly in salaries and employee benefits over the vesting term.

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 monthly. The performance obligation is satisfied, and the fees are recognized monthly 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 2022

None

Accounting Standards Pending Adoption

In March 2022, the Financial Accounting Standards Board (FASB) issued ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. Since the issuance of ASU No. 2016-13, the FASB Board of Directors has provided resources to monitor and assist stakeholders with the implementation of Topic 326, also known as Post-Implementation Review (PIR). The amendments in this update respond to feedback received during the PIR process, specifically as it pertains to eliminating accounting guidance for TDRs by creditors and adding vintage disclosures for gross write-offs. For entities that have adopted the amendments in Update 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition. The Bank plans to adopt this standard and include the new disclosures beginning with the first quarter of 2023.

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 has no loans referencing LIBOR. The only balance sheet item the Bank has that references LIBOR is one subordinated debt agreement for $6,000,000. The impact this ASU will have on the Bank is anticipated to be minimal and the Bank has not elected to apply these amendments.

2. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at December 31, 2022 and 2021 consisted of the following:

	December 31, 2022			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Government agencies	$ 62,171	$ 3	$ (10,825)	$ 51,349
Mortgage-backed securities - residential	9,834	-	(1,574)	8,260
Corporate debt	26,012	5	(1,841)	24,176
Total investment securities	$ 98,017	$ 8	$ (14,240)	$ 83,785

	December 31, 2021			
(in thousands)	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

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:

	Year Ended December 31		
(in thousands)	2022	2021	2020
Proceeds from sales	$ -	$ -	$ -
Proceeds from calls	1,662	1,066	39,864
Gross realized gains on sales and calls	7	65	874
Gross realized losses on sales and calls	(3)	-	-

Net unrealized (losses) gains on available-for-sale investment securities totaling $(14,232,000), $(535,000) and $1,617,000 are recorded, net of $4,213,000, $159,000 and $(479,000) in deferred taxes, as accumulated other comprehensive income within shareholders' equity at December 31, 2022, 2021 and 2020, respectively.

There were 29 investment securities in a continuous unrealized loss position greater than 12 months at December 31, 2022. At December 31, 2022, the Bank held 54 investment securities which were in an unrealized loss position for less than twelve months.

The unrealized losses on the investment portfolio including asset backed securities, corporates, and agencies were generally caused by changes in required yields by investors for these types of securities and changes in interest rates. All 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 issuing 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.

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 2022 will result in a credit loss and the Bank did not record an allowance for credit losses in 2022, with respect to such securities.

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

	December 31, 2022					
	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	$ 14,623	$ (561)	$ 29,723	$ (10,264)	$ 44,346	$ (10,825)
Mortgage-backed securities - residential	3,201	(301)	5,059	(1,273)	8,260	(1,574)
Corporate debt	19,223	(1,080)	4,394	(761)	23,617	(1,841)
Total investment securities	$ 37,047	$ (1,942)	$ 39,176	$ (12,298)	$ 76,223	$ (14,240)

	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 investment securities	$ 37,332	$ (635)	$ 13,500	$ (628)	$ 50,832	$ (1,263)

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

	Available-for-Sale	
(in thousands)	Amortized Cost	Fair Value
Within one year	$ 506	$ 502
After one year through five years	26,787	25,982
After five years through ten years	22,402	20,302
After ten years	38,488	28,739
	88,183	75,525
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	9,834	8,260
	$ 98,017	$ 83,785

Investment securities with amortized costs totaling $9,996,000 and $6,996,000 and estimated fair values totaling $7,315,000 and $6,825,000 were pledged to secure public deposits and represent 9% and 10% of the investment portfolio at December 31, 2022 and 2021, respectively.

The Bank does not own securities to any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total shareholders' equity at the time of purchase.

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	December 31, 2022	December 31, 2021
Commercial & agricultural (1)	$ 132,314	$ 144,969
Real estate - commercial	625,880	504,891
Real estate - construction and land	65,632	67,427
Real estate - single family	62,827	65,590
Real estate - multifamily	41,329	50,395
Consumer & lease financing	564	44
	928,546	833,316
Allowance for credit losses	(14,839)	(12,329)
	$ 913,707	$ 820,987

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $5,822 as of December 31, 2022 and $16,957 as of December 31, 2021.

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. Most 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 2020 and 2021 the Bank offered PPP loan which have terms of two to five years and earn interest at 1%. As expected, a majority of PPP loans were forgiven by the SBA and the Bank has $5,822,000 in remaining PPP loan balances, or 0.6% of total loans, as of December 31, 2022.

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.

The Bank extends construction loans in California, Arizona, Texas, and Washington 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 and this balance will adjust based on changes in investment provisions or reversals. 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, 2022, 2021, and 2020 are as follows:

	Year Ended December 31, 2022				
	Balance at December 31, 2021	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2022
(in thousands)					
Commercial & agricultural	$ 820	$ 325	$ (211)	$ 38	$ 972
Real estate - commercial	5,168	690	-	-	5,858
Real estate - construction and land	4,585	2,163	-	-	6,748
Real estate - single family	690	(132)	-	-	558
Real estate - multifamily	916	(454)	-	-	462
Consumer, lease financing & other	150	91	-	-	241
Total	$ 12,329	$ 2,683	$ (211)	$ 38	$ 14,839

	Year Ended December 31, 2021					
	Balance at December 31, 2020	Impact of CECL Adoption (1)	Provision (reversal) (1)	Charge-offs	Recoveries	Balance at December 31, 2021
(in thousands)						
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				
	Balance at December 31, 2019	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2020
(in thousands)					
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

The following table presents the amortized cost basis of collateral dependent loans by class of loans and by collateral type as of December 31, 2022 and 2021:

	December 31, 2022							
	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
Farmland	$ 111	$ -	$ -	$ -	$ -	$ -	$ 111	$ -
SFR	-	-	-	890	-	-	890	-
UCC Blanket	1,231	-	-	-	-	-	1,231	-
Special Purpose	-	3,189	-	-	-	-	3,189	-
Total collateral dependent loans	**$ 1,342**	**$ 3,189**	**$ -**	**$ 890**	**$ -**	**$ -**	**$ 5,421**	**$ -**

	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
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**	**$ -**

Accrued interest receivable for the total loan portfolio was $3,132,000 and $2,611,000 as of December 31, 2022 and 2021. The Bank did not write off any accrued interest receivable for the years ended December 31, 2022 and December 31, 2021. Net deferred loan (fees) costs were $(2,466,000) and $39,000 as of December 31, 2022 and 2021. The increase in interest receivable and increase in 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 in 2021 compared to substantially reduced activity in 2022.

Salaries and employee benefits totaling $3,854,000, $3,539,000 and $3,417,000 have been deferred as loan origination costs for the years ended December 31, 2022, 2021 and 2020 respectively.

The following table presents the interest recognized on collateral dependent loans as of December 31, 2022 and December 31, 2021:

(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, 2022							
Interest income recognized on collateral dependent loans during the year ended December 31, 2022	9	111	-	61	-	-	181
December 31, 2021							
Interest income recognized on impaired loans during the year ended December 31, 2021	25	60	-	62	-	-	147

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, 2022 and 2021:

	December 31, 2022				December 31, 2021			
(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	$ 567	$ -	$ 567	$ -	$ 114	$ -	$ 114	$ 165
Real estate - commercial	3,189	-	3,189	-	208	-	208	-
Real estate - construction and land	-	-	-	-	-	-	-	-
Real estate - single family	-	-	-	-	-	-	-	-
Real estate - multifamily	-	-	-	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-	-	-	-
Total	$ 3,756	$ -	$ 3,756	$ -	$ 322	$ -	$ 322	$ 165

Interest income recognized on non-accrual loans totaled $113,000 for the year ended December 31, 2022 and none for the year ended December 31, 2021.

The following tables present the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2022 and December 31, 2021 by class of loans:

2022 (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	$ 398	$ 345	$ 567	$ 1,310	$ 131,004	$ 132,314
Real estate - commercial	-	-	3,189	3,189	622,691	625,880
Real estate - construction and land	-	-	-	-	65,632	65,632
Real estate - single family	-	-	-	-	62,827	62,827
Real estate - multifamily	-	-	-	-	41,329	41,329
Consumer & lease financing	-	-	-	-	564	564
Total	$ 398	$ 345	$ 3,756	$ 4,499	$ 924,047	$ 928,546

2021 (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

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, 2022 there were 3 loans modified as TDR that totaled $1,002,000. This compared to 4 loans modified as TDR that totaled $2,128,000 at December 31,2021. None of the TDRs were included in nonperforming loans at December 31, 2022 or 2021. There were no specific loss allocations with respect to TDRs as of December 31, 2022 and 2021.

For the years ended December 31, 2022 and 2021, there were no new loans that were modified as troubled debt restructurings. For the year ended December 31, 2020, there were a total of 4 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, 2022 and 2021. 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, 2022 and 2021. 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, 2022, that did not meet the definition of a TDR. These loans have a total recorded investment as of December 31, 2022, of $27,878,000. 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.

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 $100,000. 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, 2022 and December 31, 2021 , the risk category of loans by class of loans is as follows:

2022		Special			
(in thousands)	Pass	Mention	Substandard	Doubtful	Total
Commercial & agricultural	$ 112,578	$ -	$ 19,736	$ -	$ 132,314
Real estate - commercial	597,598	17,421	10,861	-	625,880
Real estate - construction and land	65,632	-	-	-	65,632
Real estate - single family	62,255	-	572	-	62,827
Real estate - multifamily	41,329	-	-	-	41,329
Consumer & lease financing	564	-	-	-	564
Total	$ 879,956	$ 17,421	$ 31,169	$ -	$ 928,546

2021		Special			
(in thousands)	Pass	Mention	Substandard	Doubtful	Total
Commercial & agricultural	$ 119,545	$ 21,737	$ 3,573	$ 114	$ 144,969
Real estate - commercial	482,794	20,972	1,125	-	504,891
Real estate - construction and land	66,663	-	764	-	67,427
Real estate - single family	65,433	-	157	-	65,590
Real estate - multifamily	50,395	-	-	-	50,395
Consumer & lease financing	44	-	-	-	44
Total	$ 784,874	$ 42,709	$ 5,619	$ 114	$ 833,316

The following tables present the Bank's portfolio by grade, presented by year of origination, as of December 31, 2022. Revolving loans that are converted to term loans are treated as new originations in the table below:

	December 31, 2022						
(in thousands)	Term Loans by Year of Origination					Revolving	
	2022	2021	2020	2019	Prior	Loans	Total Loans
Commercial & agricultural							
Risk Rating							
Pass	$ 13,382	$ 19,230	$ 10,881	$ 12,961	$ 32,241	$ 23,883	$ 112,578
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	612	6,727	11,717	680	19,736
Doubtful	-	-	-	-	-	-	-
Total Commercial & agricultural	$ 13,382	$ 19,230	$ 11,493	$ 19,688	$ 43,958	$ 24,563	$ 132,314
Real estate - commercial							
Risk Rating							
Pass	$ 179,047	$ 142,251	$ 85,266	$ 44,366	$ 137,745	$ 8,923	$ 597,598
Special Mention	-	1,237	8,097	-	8,087	-	17,421
Substandard	4,127	118	3,189	-	3,427	-	10,861
Doubtful	-	-	-	-	-	-	-
Total Real estate - commercial	$ 183,174	$ 143,606	$ 96,552	$ 44,366	$ 149,259	$ 8,923	$ 625,880
Real estate - construction and land							
Risk Rating							
Pass	$ 20,927	$ 29,494	$ 7,091	$ 2,464	$ 5,656	$ -	$ 65,632
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 20,927	$ 29,494	$ 7,091	$ 2,464	$ 5,656	$ -	$ 65,632
Real estate - single family							
Risk Rating							
Pass	$ 6,536	$ 7,131	$ 23,135	$ 7,884	$ 13,627	$ 3,942	$ 62,255
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	572	-	572
Doubtful	-	-	-	-	-	-	-
Total Real estate - single family	$ 6,536	$ 7,131	$ 23,135	$ 7,884	$ 14,199	$ 3,942	$ 62,827
Real estate - multifamily							
Risk Rating							
Pass	$ 2,605	$ 5,495	$ 13,327	$ 3,723	$ 14,767	$ 1,412	$ 41,329
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Real estate - multifamily	$ 2,605	$ 5,495	$ 13,327	$ 3,723	$ 14,767	$ 1,412	$ 41,329
Consumer & lease financing							
Risk Rating							
Pass	$ 562	$ -	$ -	$ -	$ 2	$ -	$ 564
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Consumer & lease financing	$ 562	$ -	$ -	$ -	$ 2	$ -	$ 564

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:

	December 31, 2021						
(in thousands)	Term Loans by Year of Origination					Revolving	
	2021	2020	2019	2018	Prior	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 $600,185,000 and $657,970,000 were pledged to secure borrowings with the Federal Home Loan Bank and the Federal Reserve Bank at December 31, 2022 and 2021, respectively (see Note 8).

4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
(in thousands)	2022	2021
Land	$ 1,184	$ 1,184
Building	7,823	7,823
Furniture, fixtures and equipment	3,769	3,661
Leasehold improvements	886	866
	13,662	13,534
Less accumulated depreciation and amortization	(8,201)	(7,857)
	$ 5,461	$ 5,677

Depreciation and amortization included in occupancy and equipment expense totaled $391,000, $408,000 and $433,000 for the years ended December 31, 2022, 2021 and 2020, 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.

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 2028. The Bank's leases do not include residual value guarantees or covenants. A majority of the leases are classified as operating leases.

The calculated amount of the right-of-use ("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. The discount rate is determined at the lease commencement date and is not changed during the life of the lease unless the lease period is modified.

Cash payments from subleases 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 property 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, 2022	December 31, 2021
Operating Leases	**Classification**		
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 1,349	$ 1,180
Lease liabilities	Accrued Int Payable & Other Liabilities	1,411	1,207
Financing Leases			
Lease right-of-use assets	Bank Premises & Equip	$ 13	$ 25
Lease liabilities	Accrued Int Payable & Other Liabilities	13	25

The following table represents lease costs for the years indicated.

	Year Ended December 31,		
(in thousands)	2022	2021	2020
Lease Costs			
Operating lease cost	$ 429	$ 398	$ 386
Financing lease cost			
Interest on lease liabilities	-	1	1
Amortization of right-of-use assets	12	16	13
Sublease income	(199)	(353)	(351)
Net lease cost	$ 242	$ 62	$ 49

	Year Ended	
(in thousands)	December 31, 2022	December 31, 2021
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 388	$ 390
Operating cash flows from finance leases	-	1
Financing cash flows from finance leases	12	16
Noncash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 553	$ 214
Right-of-use assets obtained in exchange for financing lease liabilities	-	18

	December 31, 2022
Weighted-average remaining lease term	
Operating leases	3.8 years
Financing leases	2.6 years
Weighted-average discount rate	
Operating leases	3.16%
Financing leases	2.87%

Future minimum payments for finance leases and operating leases as of December 31, 2022 were as follows:

(in thousands) **Twelve Months Ended:**	Operating Leases	Financing Leases
December 31, 2023	$ 474	$ 6
December 31, 2024	440	3
December 31, 2025	272	3
December 31, 2026	145	1
December 31, 2027	150	-
Thereafter	38	-
Total Future Minimum Lease Payments	1,519	13
Amounts Representing Interest	(108)	-
Present Value of Net Future Minimum Lease Payments	$ 1,411	$ 13

6. INTEREST-BEARING DEPOSITS

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

Year Ending December 31,	(in thousands)
2023	$ 310,804
2024	23,260
2025	28,262
2026	34
2027	16
	$ 362,376

Wholesale brokered deposits included in deposits were $55,116,000 and $58,266,000 at December 31, 2022 and 2021. Deposits of $172,110,000 and $101,274,000 at December 31, 2022 and 2021 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, 2022 or 2021.

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, 2022 and 2021, the Bank had an available secured borrowing capacity at the FRB of $92,639,000 and $67,456,000, respectively. Loans totaling $225,234,000 and $162,861,000 were pledged to secure a line of credit with the Federal Reserve Bank at December 31, 2022 and 2021, 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. This line of credit is collateralized by $437,324,000 and $432,736,000 of loans under a blanket lien arrangement at December 31, 2022 and 2021. Based on this collateral, the Bank was eligible to borrow up to a total of

$253,721,000 and $277,106,000, of which $197,529,000 and $213,414,000 was available for additional advances as of December 31, 2022 and 2021. Advance balances averaged $62,528,000 and $54,233,000 in 2022 and 2021.

Advances outstanding from the Federal Home Loan Bank were $41,000,000 at December 31, 2022, with maturities from January 2023 through February 2025 and fixed rates from 1.28% to 1.90%. 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%.

At December 31, 2022, FHLB fixed rate advances are scheduled to mature as follows:

(in thousands)	Weighted Average Interest Rate	December 31, 2022
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
		$ 41,000

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 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 redeemable by the Bank at its option, in whole or in part, on or after June 30, 2024, or in whole but not in part under certain other circumstances. The Notes are reported net of any debt issuance cost which totaled $95,000 at December 31, 2022 and $109,000 at December 31, 2021.

10. INCOME TAXES

The provision for income taxes for the years ended December 31, 2022, 2021 and 2020 consisted of the following:

(in thousands)

2022	Federal	State	Total
Current	$4,351	$2,591	$6,942
Deferred	(59)	19	(40)
Provision for income taxes	$4,292	$2,610	$6,902

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

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

	December 31,	
(in thousands)	2022	2021
Deferred tax assets:		
Allowance for credit losses	$ 4,521	$ 3,820
Mortgage servicing rights, net of discount	299	1,008
Future benefit of state tax deduction	539	464
Net unrealized losses on available-for-sale investment securities	4,213	159
Lease liability	422	365
Other accruals	459	319
Total deferred tax assets	10,453	6,135
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(64)	(64)
Deferred loan costs	(2,641)	(2,491)
Prepaid expenses and other	(44)	(17)
Right of use assets	(403)	(357)
Bank premises and equipment	(595)	(594)
Total deferred tax liabilities	(3,747)	(3,523)
Net deferred tax assets	$ 6,706	$ 2,612

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The effective tax rate for the years ended December 31, 2022, 2021 and 2020 were as following:

	2022	2021	2020
	Rate	Rate	Rate
Federal statutory income tax rate	21.0%	21.0%	21.0%
State franchise tax, net of federal tax benefit	8.6%	8.6%	8.6%
Other	-0.7%	0.0%	0.0%
Effective Tax Rate	28.9%	29.6%	29.6%

The Bank had no unrecognized tax benefits and recorded no interest and penalties for the years ended December 31, 2022 and 2021. 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 2019 and prior and by California taxing authorities for tax years 2018 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, 2022 and 2021.

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)	2022		2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 53	$ 13,075	$ 2,000	$ 6,893
Unused lines of credit	10,874	99,172	6,913	146,835
Standby letters of credit	3,347	12,692	1,642	2,591

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, 2022 and 2021. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2022, real estate loan commitments represent 41% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Commercial loan commitments represent approximately 59% 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 $3,335,000 in deposits were uninsured at December 31, 2022.

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, 2022 and 2021.

At December 31, 2022, 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:

	2022		2021	
(in thousands)	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 90,636	9.4%	$ 79,193	9.5%
Minimum requirement with capital conservation buffer (1)	$ 67,452	7.0%	$ 58,049	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 62,634	6.5%	$ 53,903	6.5%
Minimum regulatory requirement	$ 43,362	4.5%	$ 37,317	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 90,636	9.4%	$ 79,193	9.5%
Minimum requirement with capital conservation buffer (1)	$ 81,906	8.5%	$ 70,488	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 77,088	8.0%	$ 66,342	8.0%
Minimum regulatory requirement	$ 57,816	6.0%	$ 49,756	6.0%
Total Capital Ratio				
Summit State Bank	$ 108,626	11.3%	$ 95,481	11.5%
Minimum requirement with capital conservation buffer (1)	$ 101,177	10.5%	$ 87,073	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 96,360	10.0%	$ 82,927	10.0%
Minimum regulatory requirement	$ 77,088	8.0%	$ 66,342	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 90,636	8.5%	$ 79,193	8.7%
Minimum requirement for "Well-Capitalized" institution	$ 53,104	5.0%	$ 45,772	5.0%
Minimum regulatory requirement	$ 42,483	4.0%	$ 36,618	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 2022 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 on the record date. 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 Plans

The shareholders approved the 2013 Equity Incentive Plan ("Plan") on July 29, 2013. The Plan allows for various equity-based incentives such as stock appreciation rights (SARs), restricted stock awards (RSAs), stock grants and qualified performance-based awards. The Plan reserves a total of 206,250 shares of common stock for issuance to Bank employees and directors. There are 158,310 shares that remain available for future grants under the Plan at December 31, 2022.

The Plan requires that the award exercise price may not be less than the fair value of the stock at the date it is granted. Awards have vesting periods of 5 years, unless otherwise approved by the Board of Directors. Expiration dates are determined by the Board of Directors but may not be later than ten years from the date of grant.

Stock-Based Compensation – Stock Options

Under the prior 2007 Stock Option Plan ("2007 Plan"), the Bank granted stock options to employees and directors. These stock options allowed 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 last of these options were issued in 2011 with an original term of ten years, with a final expiration date of October 24, 2021 for the remaining 7,500 stock options. The 7,500 stock options issued under the 2007 Plan were exercised in 2021 before their final expiration date.

As it pertains to the 2007 Plan, at December 31, 2022 there were no vested stock options outstanding and no options exercised during the year. At December 31, 2021, there were no vested stock 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:

	2022	2021	2020
Intrinsic value of options exercised	$ -	$ 84,525	$ -
Cash received from option exercises	-	33,000	-
Tax benefit realized from option exercises	-	25,000	-

Stock-Based Compensation – Stock Appreciation Rights

Prior to 2021, the Bank granted Stock Appreciation Rights ("SARs") 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 ten years from the date of grant and typically have 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.

Vested SARs are settled in the form of cash payments when the Bank receives written notification from an employee to exercise a SAR payment, the tenth anniversary of the effective date, or at termination of employment. Obligations associated with SARs are accounted for as liabilities and are included in accrued interest payable and other liabilities on the balance sheet. The Bank's SARs are valued based on the number of vested shares times the fair value of the stock price as of the report date. The Bank discontinued issuing SARs beginning 2021 and instead has been issuing RSAs; because of this there were no SAR grants for the years ended December 31, 2022 or 2021.

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, 2022, 2021 and 2020, there was $449,000, $341,000, and $25,000 in compensation costs related to SARs granted. As of December 31, 2022, 2021 and 2020, there was $324,000, $404,000, and $326,000 of total unrecognized compensation costs related to SARs granted.

A summary of the activity for the SARs agreements follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Year Ended December 31, 2022				
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	6.3 years	$ 1,530,014
Vested or expected to vest	289,000	$ 12.28	6.3 years	$ 1,530,014
Exercisable at end of year	243,100	$ 11.87	6.0 years	$ 1,205,573

There were no SARs granted in 2022 or 2021. The weighted average fair value of SARs granted in 2020 was $3.01. Weighted average assumptions used in the determination of the fair value of the SAR grants were as follows:

	2022	2021	2020
Expected life in years	-	-	10
Expected dividend yield	-	-	3.92%
Expected price volatility	-	-	29.99%
Risk-free interest rate	-	-	0.93%

As of December 31, 2022 and 2021, the Bank had a liability recorded of $1,206,000 and $756,000 related to outstanding SARs.

Stock-Based Compensation – Restricted Stock Awards

Beginning 2022 the Board started issuing RSAs in lieu of SARs as long-term equity incentives to key employees and directors. All vested and unvested RSAs are included in the common stock count. RSAs vest in five equal installments on each of the first five anniversaries of the grant date. Holders are entitled to dividends on the same per-share ratio as holders of common stock, dividends for unvested RSAs will accrue at grant and be paid out at the time of vesting. Unvested RSAs and the associated accrued but unpaid dividends are forfeited if the grantee's employment with the Bank is terminated prior to the vesting of the RSAs.

There were 50,160 RSAs granted during the year ended December 31, 2022 and no such awards granted during the year ended December 31, 2021. As of December 31, 2022, there were 44,740 RSAs outstanding (3,200 exercisable and 2,220 were forfeited since grant) and none were outstanding and exercisable at December 31, 2021.

On March 28, 2022, the Board of Directors awarded 46,960 RSAs to selected groups of employees. These RSAs have a grant date of April 1, 2022, and grant price of $16.90, which equals the closing trading price on the grant date. On April 25, 2022, the Board of Directors awarded a total of 3,200 RSAs immediately vesting to eligible members of the Board of Directors with a grant date of May 2, 2022, and grant price of $16.20, which equals the closing trading price on the grant date.

For the years ending December 31, 2022 and December 31, 2021, the total expense related to RSAs was $165,000 and $0, respectively. As of December 31, 2022, there was $643,000 of total unrecognized compensation costs related to non-vested RSAs granted.

All RSAs are released in the form of stock upon vesting. The Bank will recognize an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, generally when vested or settled.

The following table presents unvested restricted stock awards activity for the periods indicated:

	Number of Shares	Weighted-Average Price per Share
Outstanding Balance, December 31, 2021	-	$ -
Granted	50,160	$ 16.86
Vested	(3,200)	$ 16.20
Forfeited	(2,220)	$ 16.90
Outstanding Balance, December 31, 2022	44,740	$ 16.90

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 2022, 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 at least 1,000 hours of employment in a 12 consecutive month period.

Contributions by the Bank totaled $491,000, $430,000 and $336,000 for the years ended December 31, 2022, 2021 and 2020, 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 Bank makes available an Employee Loan Program which offers preferred interest rates on primary home mortgage loans; this program is compliant with the applicable restrictions of Section 22(h) of the Federal Reserve Act. Otherwise, all other transactions, including loans and commitments to lend, are made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness and do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual Directors and Executive Officers comply with the Bank's lending policies and statutory lending limits. In addition, in some cases, prior approval of the Bank's Board of Directors must be obtained for such loans, as required by federal and state regulations applicable to the Bank.

The following is a summary of the aggregate activity involving related party borrowers.

	2022	2021	2020
(in thousands)			
Balance, January 1	$ 3,873	$ 4,046	$ 10,952
New borrowings	1,500	534	4,703
Amounts repaid	(1,649)	(707)	(11,609)
Balance, December 31	$ 3,724	$ 3,873	$ 4,046
Undisbursed commitments to related parties	$ 500	$ 500	$ 475

At December 31, 2022, 2021 and 2020, deposits of related parties amounted to $1,610,000, $2,344,000 and $1,441,000, 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, 2022 and 2021:

	December 31, 2022			December 31, 2021		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 77,567	$ 77,567	Level 1	$ 40,699	$ 40,699	Level 1
Investment securities - available-for-sale	83,785	83,785	Level 2	69,367	69,367	Level 2
Loans, net of allowance	913,707	865,015	Level 3	820,987	830,430	Level 3
Investment in FHLB stock	4,737	4,737	Level 2	4,320	4,320	Level 2
Accrued interest receivable	3,690	3,690	Level 1	2,787	2,787	Level 1
Financial liabilities:						
Deposits	$962,655	$ 957,609	Level 2	$811,600	$811,535	Level 2
FHLB advances	41,000	39,731	Level 2	48,500	49,200	Level 2
Junior subordinated debt	5,905	4,390	Level 3	5,891	4,286	Level 3
Accrued interest payable	205	205	Level 1	72	72	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, 2022 (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	$ 51,349	$ -	$ 51,349	$ -
Mortgage-backed securities - residential	8,260	-	8,260	-
Corporate debt	24,176	-	24,176	-
Total securities available-for-sale	$ 83,785	$ -	$ 83,785	$ -

		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	$ -

No liabilities were measured at fair value on a recurring basis at December 31, 2022 or 2021.

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 2022, 2021 or 2020.

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, 2022 or 2021.

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, 2022 for potential recognition and disclosure matters.

On January 23, 2023, the Board of Directors declared a $0.12 per common share cash dividend to shareholders of record at the close of business on February 9, 2023, that was paid on February 16, 2023.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

Effectiveness of 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, evaluated 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, 2022. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective as of December 31, 2022.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, the disclosure controls and procedures were adequate and effective, and that the material information required to be included in this report was properly recorded, processed, summarized and reported, and was made known to the Chief Executive Officer and Chief Financial Officer by others within the Bank in a timely manner, particularly during the period when this report on Form 10-K was being prepared.

Management's Report on Internal Control Over Financial Reporting

Management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting for the Bank, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. 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 an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2022, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In November 2022, management determined that the Bank did not maintain effective control over the classifications within the Statements of Cash Flows. On November 17, 2022, the Bank's Board of Directors authorized management to restate the Bank's previously issued audited annual 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 (the "Affected Financial Statements"). Accordingly, management has concluded that the control deficiency that resulted in the misclassification of "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 Statements of Cash Flows for the Affected Financial Statements constituted a material weakness as of December 31, 2021. Solely as a result of this material weakness, management revised its earlier assessment and updated its conclusion that the Bank's internal control over financial reporting was not effective as of December 31, 2021.

Remediation Plan and Status

Management determined that an existing control did not operate as intended which resulted in the existence of a material weakness. Accordingly, management added additional reviews of the Bank's quarterly financial statements. A summary of all reclassifications are provided to the Bank's Audit Committee quarterly and include a summary of the reason for the classification change and what specific accounting guidance or rule the change applies to in order to ensure proper interpretation and reporting has taken place.

These remediated controls have been implemented for a sufficient period of time, two consecutive quarters, and has been validated through testing to ensure they are operating effectively. We believe the measures described above remediate this material weakness and strengthened 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 certain remediation measures described above.

Changes in Internal Control Over Financial Reporting

There was one change in the Bank's internal control over financial reporting identified in connection with management's evaluation that occurred before the year ending December 31, 2022. Management implemented a change in internal controls over financial reporting while preparing the interim financial information for the third quarter of 2022 and for the year ended December 31, 2022. This change was successfully implemented to remediate a material weakness related to a reclassification within its financial statements dating back to December 31 2021.

Based on the Bank's assessment of the overall control environment and updates to remediate the material weakness noted above, management concludes the control system is deemed to be effective to provide materially correct presentation of the Bank's financial statements and financial disclosures. No other material weaknesses in the Bank's internal controls have been identified by management for the year ended December 31, 2022. Management concludes that the Bank maintained effective internal control over financial reporting, as of December 31, 2022.

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the systems and reasonable resource constraints. Because of its inherent limitations, the Bank's internal control over financial reporting may not prevent or detect misstatements. Projections or any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 8B. OTHER INFORMATION

None.

ITEM 8C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We intend to file a definitive proxy statement for the 2023 Annual Meeting of Shareholders (or the "Proxy Statement") with the FDIC within 120 days of December 31, 2022. Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

The Bank has adopted a code of ethics applicable to all of our directors and employees, including the principal executive officer, principal financial officer and principal accounting officer.

ITEM 10. EXECUTIVE COMPENSATION

Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information as of December 31, 2022 relating to equity compensation plans of Summit State Bank pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans: Approved by security holders	47,940	$16.85	158,310

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will appear in the Proxy Statement and is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

ITEM 13. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item will be included in the Proxy Statement and is incorporated herein by reference.

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 (Moss Adams LLP, Sacramento, California, PCAOB ID 659)
Balance Sheets at December 31, 2022 and 2021
Statements of Income for each of the years in the three-year period ended December 31, 2022
Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2022
Statements of Changes in Shareholders’ Equity for each of the years in the three-year period ended December 31, 2022
Statements of Cash Flows for each of the years in the three-year period ended December 31, 2022
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]
10.9	Form of Restricted Stock Award Agreement under 2013 Equity Incentive Plan[14]
14.1	Code of Ethics [14]
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 8-Ks filed with the FDIC on April 1, 2022.

[15] 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.

ITEM 15. FORM 10-K SUMMARY

None

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 *Ꮍs/ Camille D. Kazarian* March 22, 2023

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

Summit State Bank

By */s/ Brian J. Reed* March 22, 2023

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Dated: March 22, 2023 *\/s/ Brian J. Reed*
Brian J. Reed, President and Chief Executive Officer
(Principal Executive Officer) and Director

Dated: March 22, 2023 */s/ Camille D. Kazarian*
Camille D. Kazarian, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Dated: March 22, 2023 */s/ Jeffery B. Allen*
Jeffery B. Allen, Director

Dated: March 22, 2023 */s/ James E. Brush*
James E. Brush, Chairman of the Board and Director

Dated: March 22, 2023 */s/ Josh C. Cox, Jr.*
Josh C. Cox, Jr., Director

Dated: March 22, 2023 */s/ Todd R. Fry*
Todd R. Fry, Director

Dated: March 22, 2023 */s/ Belinda S. Guadarrama*
Belinda S. Guadarrama, Director

Dated: March 22, 2023 */s/ Richard E. Pope*
Richard E. Pope, Director

Dated: March 22, 2023 */s/ Nicholas J. Rado*
Nicholas J. Rado, Director

Dated: March 22, 2023 */s/ Douglas V. Reynolds*
Douglas V. Reynolds, Director

Dated: March 22, 2023 */s/ Marshall T. Reynolds*
Marshall T. Reynolds, Director

Dated: March 22, 2023 */s/ Dawn M. Ross*
Dawn M. Ross, Director

Dated: March 22, 2023 */s/ John W. Wright*
John W. Wright, Director

Dated: March 22, 2023 */s/ Sharon S. Wright*
Sharon S. Wright, Director

EXHIBIT 21

None.

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 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: March 22, 2023

/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 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: March 22, 2023

/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 of Summit State Bank (the Registrant) for the year ended December 31, 2022, 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 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 fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 22, 2023

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

Dated: March 22, 2023

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