PACIFIC VALLEY BANCORP

Annual Report 2023

Independent Auditor's Report

To the Board of Directors
Pacific Valley Bancorp and Subsidiary
Salinas, California

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Pacific Valley Bancorp and Subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Pacific Valley Bancorp and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Pacific Valley Bancorp and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle
As discussed in Note 1 to the consolidated financial statements, Pacific Valley Bancorp and Subsidiary adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pacific Valley Bancorp and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pacific Valley Bancorp and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

San Ramon, California
April 3, 2024

Pacific Valley Bancorp

Consolidated Statements of Financial Condition

Years Ended December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	$ 17,219,000	$ 24,622,000
Federal funds sold	80,176,000	87,587,000
Total cash and cash equivalents	97,395,000	112,209,000
Time deposits in other banks	2,450,000	3,185,000
Debt securities available for sale, at fair value (amortized cost $27,997,000 and $29,013,000, net of allowance for credit losses of $0 and $0)	26,946,000	27,651,000
Loans, net of deferred fees and costs	452,531,000	409,322,000
Allowance for credit losses	(7,512,000)	(6,141,000)
Net loans	445,019,000	403,181,000
Federal Home Loan and other bank stocks, at cost	2,565,000	2,277,000
Premises and equipment	759,000	728,000
Bank owned life insurance	6,070,000	5,963,000
Accrued interest and other assets	4,791,000	3,836,000
Total assets	$ 585,995,000	$ 559,030,000
Liabilities and shareholders' equity		
Deposits		
Noninterest-bearing	$ 259,712,000	$ 252,802,000
Interest-bearing	253,374,000	239,694,000
Total deposits	513,086,000	492,496,000
Subordinated notes, net of unamortized issuance costs	16,828,000	16,775,000
Accrued interest and other liabilities	4,404,000	2,363,000
Total liabilities	534,318,000	511,634,000
Shareholders' equity		
Preferred stock - 5,000,000 shares authorized, none outstanding	-	-
Common stock - no par value, 100,000,000 shares authorized, shares issued and outstanding - 4,454,301 at December 31, 2023 and 4,464,329 at December 31, 2022	37,514,000	37,345,000
Retained earnings	14,994,000	11,127,000
Accumulated other comprehensive loss - net unrealized loss on available-for-sale securities, net of taxes of ($220,000) and ($286,000) in 2023 and 2022, respectively	(831,000)	(1,076,000)
Total shareholders' equity	51,677,000	47,396,000
Total liabilities and shareholders' equity	$ 585,995,000	$ 559,030,000

Pacific Valley Bancorp

Consolidated Statements of Income

Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income		
Interest and fees on loans	$ 21,632,000	$ 19,490,000
Interest on federal funds sold and other	4,383,000	1,525,000
Total interest income	26,015,000	21,015,000
Interest Expense		
Interest on savings, NOW, and money market accounts	4,524,000	741,000
Interest on time deposits	2,539,000	211,000
Interest on borrowings	905,000	701,000
Total interest expense	7,968,000	1,653,000
Net Interest Income	18,047,000	19,362,000
Provision for credit losses	-	592,000
Net interest income after provision for credit losses	18,047,000	18,770,000
Noninterest Income		
Service charges and fees on deposit accounts	1,108,000	1,160,000
Other service charges and fees	86,000	76,000
Interchange fees	199,000	159,000
Earnings on bank owned life insurance	107,000	101,000
Total noninterest income	1,500,000	1,496,000
Noninterest Expense		
Salaries and employee benefits	7,584,000	8,047,000
Occupancy and equipment expense	862,000	926,000
Other expenses	4,222,000	3,841,000
Total noninterest expense	12,668,000	12,814,000
Income before income taxes	6,879,000	7,452,000
Income taxes	2,032,000	2,245,000
Net income	$ 4,847,000	$ 5,207,000
Net income per share - Basic	$ 1.09	$ 1.18
Net income per share - Diluted	$ 1.09	$ 1.18

	2023	2022
Net income	$ 4,847,000	$ 5,207,000
Other comprehensive income		
Unrealized gains (losses) on securities available for sale	345,000	(1,340,000)
	345,000	(1,340,000)
Income tax benefit		
Change in net unrealized gain (loss)	100,000	(281,000)
	100,000	(281,000)
Total other comprehensive income (loss)	245,000	(1,059,000)
Total comprehensive income	$ 5,092,000	$ 4,148,000

	Common Stock			Accumulated Other Comprehensive Income (Loss)	
	Number of Shares	Amount	Retained Earnings		Total
Balance at December 31, 2021	3,991,828	$ 32,705,000	$ 10,303,000	$ (17,000)	$ 42,991,000
Issuance of shares for cash	9,434	100,000			100,000
Issuance of stock grants	57,444				
Common stock dividend distributable	405,623	4,381,000	(4,383,000)		(2,000)
Stock based compensation		159,000			159,000
Net income			5,207,000		5,207,000
Other comprehensive loss, net of taxes				(1,059,000)	(1,059,000)
Balance at December 31, 2022	4,464,329	$ 37,345,000	$ 11,127,000	$ (1,076,000)	$ 47,396,000
Impact of adopting ASC 326 (CECL)			(980,000)		(980,000)
Forfeiture of stock grants	(10,028)				
Stock based compensation		169,000			169,000
Net income			4,847,000		4,847,000
Other comprehensive income, net of taxes				245,000	245,000
Balance at December 31, 2023	4,454,301	$ 37,514,000	$ 14,994,000	$ (831,000)	$ 51,677,000

Pacific Valley Bancorp

Consolidated Statements of Cash Flow

December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net income	$ 4,847,000	$ 5,207,000
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	185,000	136,000
Provision for credit losses	-	592,000
Earnings on bank owned life insurance	(107,000)	(101,000)
Stock based compensation	169,000	159,000
PPP Deferred Loan Fees, net	18,000	1,771,000
Deferred income taxes	(63,000)	(160,000)
Other items	110,000	102,000
Total adjustments	312,000	2,499,000
Net Cash from Operating Activities	5,159,000	7,706,000
Investing Activities		
Net change in time deposits in other banks	735,000	245,000
Net change in loans to customers	(41,856,000)	(26,339,000)
Purchase of available for sale (AFS) debt securities	(2,554,000)	(18,863,000)
Proceeds from maturities of AFS debt securities	2,000,000	-
Proceeds from payments on AFS debt securities	1,609,000	830,000
Purchase of federal home loan bank stock	(288,000)	(410,000)
Purchases of premises and equipment	(209,000)	(158,000)
Net Cash used in Investing Activities	(40,563,000)	(44,695,000)
Financing Activities		
Net change in demand deposits and savings accounts	(11,899,000)	23,539,000
Net change in time deposits	32,489,000	14,808,000
Issuance of shares for cash	-	100,000
Subordinated notes, net of unamortized issuance costs	-	16,775,000
Net Cash from Financing Activities	20,590,000	55,222,000
Net Change in Cash and Cash Equivalents	(14,814,000)	18,233,000
Cash and Cash Equivalents, Beginning of Year	112,209,000	93,976,000
Cash and Cash Equivalents, End of Year	$ 97,395,000	$ 112,209,000
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 7,968,000	$ 1,653,000
Taxes paid	$ 2,060,000	$ 2,515,000
Lease liabilities arising from obtaining right-of-use assets	$ 856,000	$ 1,513,000

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

On January 4, 2022, we completed the formation of Pacific Valley Bancorp (“the Company”) as the bank holding company for Pacific Valley Bank (“the Bank”). Upon completion of the formation and reorganization, the Bank’s shareholders became shareholders of the new holding company essentially in the same proportion as each shareholder’s interest in the Bank. The financial statements presented for the years ended 2023 and 2022 represent consolidated Company results.

The Bank was created by local business leaders that were looking for a bank that truly understood the local business landscape and could provide solutions to help the local economy thrive. That is exactly what we have done since our first customer walked through the door back in September 2004. Our products and services are targeted to customers who operate small and middle-market businesses, professionals, high net worth individuals, and families residing in Monterey County, California. We serve business and individual customers from three California branch locations: Salinas, Monterey, and King City. Our mission is to "create prosperity in the community through excellence in banking." It is our goal to compete on responsive service and not solely on the basis of price.

Principles of Consolidation

The consolidated financial statements include the accounts of Pacific Valley Bancorp and its wholly owned subsidiary Pacific Valley Bank. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies we follow conform, in all material respects, to accounting principles generally accepted in the United States of America and to general practices within the financial services industry.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits with other financial institutions with original maturities ninety days or less, and federal funds sold. Generally, federal funds are sold for periods of less than ninety days.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. As of December 31, 2023 and 2022, the required reserve percentage is zero. The Bank was in compliance with its reserve requirements as of December 31, 2023 and 2022.

The Bank maintains amounts due from banks, which may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Time Deposits in Other Banks

Time deposits in other banks generally mature within one year and are carried at cost.

Debt Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days deliqinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Allowance for Credit Losses – Available-for-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company 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 either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company 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.

Allowance for Credit Losses – Available-for-Sale Securities (continued)

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. 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. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled $103,000 at December 31 , 2023 and is excluded from the estimate of credit losses.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans and fair value hedge accounting adjustments. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Interest income is accrued on the unpaid principal balance. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Allowance for Credit Losses - Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Allowance for Credit Losses - Loans (continued)

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such· as changes in unemployment rates, property values, estimated collateral values or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Portfolio segments identified by the Company include construction and land development, real estate, commercial and agriculture, and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios, financial performance on non-consumer loans, debt-to-income ratios, collateral type, and loan-to-value ratios for consumer loans.

The evaluation of the general reserve uses historical loss rates for each portfolio segment adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability, and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual, and other adversely graded loans; changes in the quality of the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; changes in the level of concentrations of credit; and the effect of other external factors such as competition and legal and regulatory requirements.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Allowance for Credit Losses - Loans (continued)

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

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company establishes a liability for estimated expected credit losses on off-balance sheet commitments, excluding commitments that are unconditionally cancellable. The estimate is included in "Accrued expenses and other liabilities" on the consolidated statements of financial condition. Expected credit losses are estimated over the contractual period in which the Company is exposed to credit risk through the commitment adjusted for anticipated prepayments when appropriate. The estimate of the liability also considers the likelihood that funding will occur. The ACL on off-balance sheet commitments is adjusted through provision for credit losses on consolidated statements of income. The underwriting process and risks associated with off-balance sheet commitments are essentially the same as loans and therefore the Company uses the same ACL process as loans to estimate the liability.

Federal Home Loan Bank (FHLB) and Other Bank Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank's investment in FHLB stock was approximately $2,309,000 and $2,021,000 at December 31, 2023 and 2022, respectively.

The Bank elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is $256,000 as of December 31, 2023 and 2022, and includes investment in Pacific Coast Bankers' Bank (PCBB) and The Independent Bankers' Bank (TIB) stock. No gain or loss was recorded to income in 2023 and 2022. Adjustments to the carrying value of banker's bank stock is based on observable activity in the stock when available.

Interest Rate Contracts and Hedging Activities

For asset/liability management purposes, the Company uses interest rate swap agreements to hedge various exposures. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company's fixed-rate loans to a variable rate (fair value hedge).

The gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet specified hedging criteria would be recorded at fair value with changes in fair value recorded in income. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivative contracts would be closed out and settled, or classified as a trading activity. Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

Other Real Estate Owned (OREO)

Real estate acquired through foreclosure or deed in lieu of foreclosure is recorded at fair value at the date legal title is transferred, establishing a new cost basis by a charge to the allowance for credit losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses. As of December 31, 2023 and 2022, the Bank had no other real estate owned.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture and equipment and forty years for premises. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Leases

The Company determines if an arrangement contains a lease at contract inception and recognize right-of-use (ROU) assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be reasonably exercised. The present value of lease payments is determined based on the Company's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of twelve (12) months or less are not recorded in the statements of financial condition. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component.

Bank Owned Life Insurance

Bank owned life insurance is recorded at the amount that can be realized under insurance contracts at the date of the statement of financial condition, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements at December 31, 2023 and 2022.

Transfer of Financial Assets

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

Revenue Recognition – Noninterest Income

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation(s) and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

The following is a discussion of key revenues within the scope of the new revenue guidance:

Service Charges and Fees on Deposit Accounts

The Company earns fees from its deposit customers for account maintenance, transaction-based fees, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits 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.

Interchange Fees

Interchange fees represent fees earned during the customers' use of a Company issued debit card. The Company earns interchange fees from debit cardholder transactions through a 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 card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Gains and/or Losses on OREO Sales

Gains and/or losses on the sale of other real estate owned (OREO) are included in non-interest income and are generally recognized when the performance obligation is complete; typically at delivery of control over the property to the buyer at the time of each real estate closing.

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the fair value on grant-date of the awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period, on a straight-line basis.

The Company has elected to account for forfeitures of stock-based awards as they occur. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the income statement when incurred.

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

The Company has adopted guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

The Company files a consolidated income tax return with the Bank subsidiary. Federal income tax expense or benefit has been allocated to subsidiaries on a separate return basis.

Earnings Per Share (EPS)

Earnings per common share is computed under the two-class method. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding outstanding participating securities. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Unvested share-based awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company has determined that its outstanding non-vested restricted share awards are participating securities.

Comprehensive Income

Accounting principles generally accepted in the United States require that recognized revenue, expenses, gains, and losses be included in net income. Changes in unrealized gains and losses on available for sale debt securities is the only component of accumulated other comprehensive income for the Company. Such items, along with net income, are components of comprehensive income.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or shareholders' equity.

Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 12. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Value Measurement

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

Fair Value Measurement (continued)

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

Recent Accounting Guidance

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $1.0 million and an increase to deferred taxes of $0.4 million as of January 1, 2023 for the cumulative effect of adopting ASC 326. The adoption resulted in an increase to the Allowance for Credit Losses from $6.1 million to $7.5 million which is entirely applicable to the loan portfolio.

Recent Accounting Guidance (continued)

The following table illustrates the impact of ASC 326:

	January 1, 2023		
	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	As Reported Under ASC 326
Loans			
Construction and land development	$ 339,000	$ (160,000)	$ 179,000
Real estate	4,913,000	1,527,000	6,440,000
Commercial and agriculture	734,000	(70,000)	664,000
Other loans	155,000	74,000	229,000
Allowance for credit losses on loans	$ 6,141,000	$ 1,371,000	$ 7,512,000

On March 31, 2022, the FASB issued Accounting Standards Update (ASU) 2022-02, Troubled Debt Restructurings and Vintage Disclosures, which eliminates troubled debt restructurings (TDR) reporting guidance under ASC 310-40 for institutions who have adopted ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The new ASU also amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination.

Subsequent Events

On February 23, 2024 the Board of Directors approved a 10% stock dividend for shareholders of record as of March 28, 2024. The dividend is expected to be issued on or around April 15, 2024. Subsequent events were evaluated through April 3, 2024, the date the financial statements were available to be issued.

Note 2 - Investments

The amortized cost, unrealized gains and losses, and estimated fair values of investments in debt and other securities at December 31, 2023 and 2022 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
Available-for-Sale Securities				
U.S. Treasury Securities	$ 2,989,000	$ -	$ (177,000)	$ 2,812,000
U.S. Government Agency Obligations	3,000,000	-	(216,000)	2,784,000
Mortgage-Backed Securities	19,432,000	16,000	(724,000)	18,724,000
State & Political Subdivisions	2,576,000	63,000	(13,000)	2,626,000
Total Available-for-Sale Securities	$ 27,997,000	$ 79,000	$ (1,130,000)	$ 26,946,000
2022				
Available-for-Sale Securities				
U.S. Treasury Securities	$ 3,982,000	$ -	$ (280,000)	$ 3,702,000
U.S. Government Agency Obligations	4,000,000	-	(328,000)	3,672,000
Mortgage-Backed Securities	18,450,000	-	(713,000)	17,737,000
State & Political Subdivisions	2,581,000	19,000	(60,000)	2,540,000
Total Available-for-Sale Securities	$ 29,013,000	$ 19,000	$ (1,381,000)	$ 27,651,000

There were no sales or calls of available-for-sale securities in the years ended December 31, 2023 and 2022.

	2023 Amortized Cost	Fair Value	2022 Amortized Cost	Fair Value
Available-for-Sale Securities				
Due within One Year	$ 2,000,000	$ 1,924,000	$ 2,000,000	$ 1,922,000
Due from One to Five Years	6,880,000	6,495,000	9,095,000	8,496,000
Due from Five to Ten Years	4,826,000	4,525,000	5,221,000	4,861,000
Due after Ten Years	14,291,000	14,001,000	12,697,000	12,372,000
Total Available-for-Sale Securities	$ 27,997,000	$ 26,945,000	$ 29,013,000	$ 27,651,000

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. In addition, factors such as prepayments and interest rates may affect the yield on the carrying value of mortgage-related securities.

Note 2 - Investments (continued)

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of December 31, 2023, follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Securities	$ -	$ -	$ 2,812,000	$ (177,000)	$ 2,812,000	$ (177,000)
U.S. Government Agency Obligations	-	-	2,784,000	(216,000)	2,784,000	(216,000)
Mortgage-Backed Securities	-	-	16,188,000	(724,000)	16,188,000	(724,000)
State and Political Subdivisions	-	-	1,209,000	(13,000)	1,209,000	(13,000)
Total Available-for-Sale Securities	$ -	$ -	$ 22,993,000	$ (1,130,000)	$ 22,993,000	$ (1,130,000)

An analysis of gross unrealized losses of the available-for-sale investment securities portfolio as of December 31, 2022, follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Securities	$ -	$ -	$ 3,702,000	$ (280,000)	$ 3,702,000	$ (280,000)
U.S. Government Agency Obligations	-	-	3,672,000	(328,000)	3,672,000	(328,000)
Mortgage-Backed Securities	15,449,000	(454,000)	2,287,000	(259,000)	17,736,000	(713,000)
State and Political Subdivisions	1,652,000	(60,000)	-	-	1,652,000	(60,000)
Total Available-for-Sale Securities	$ 17,101,000	$ (514,000)	$ 9,661,000	$ (867,000)	$ 26,762,000	$ (1,381,000)

At December 31, 2023 no allowance for credit losses was established for available-for-sale securities. Unrealized losses at December 31, 2023 are a result of expected fluctuations in the bond market primarily driven by changes in market interest rates. As of December 31, 2023, the Company's securities portfolio consisted of 27 securities, 21 of which were in an unrealized loss position. The unrealized loss of $1.1 million represented a 4.7% decline relative to the book value of those securities. This loss is due to rising interest rates and the Company has the ability to hold these securities until maturity with the expectation of full recovery of principal.

No investment securities at December 31, 2023 and 2022 were pledged to secure public deposits or for other purposes as required or permitted by law.

Note 3 - Loans

The Company's loan portfolio consists primarily of loans to borrowers within Monterey County, California, and surrounding communities. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Company's market area and, as a result, the Company's loan and collateral portfolios are, to some degree, concentrated in those industries. The Company's loan portfolio concentration in real estate secured credit at December 31, 2023 and 2022, was approximately 88% and 78%, respectively.

The Bank has pledged loans to secure lines of credit with the Federal Home Loan Bank (discussed in Note 7).

At December 31, the composition of the loan portfolio is as follows:

	2023	2022
Construction and Land Development	$ 3,495,000	$ 11,725,000
Real Estate - Other		
1-4 family residential	20,069,000	20,936,000
Multifamily residential	46,897,000	46,711,000
Commercial real estate	289,477,000	255,241,000
Commercial and Agriculture		
Commercial and industrial	31,822,000	25,893,000
Agriculture production	12,751,000	10,889,000
Secured by farmland	34,833,000	24,645,000
Other loans	13,187,000	13,282,000
Total loans	452,531,000	409,322,000
Allowance for credit losses	(7,512,000)	(6,141,000)
Net loans	$ 445,019,000	$ 403,181,000

The balance of unamortized loan origination costs and premiums, net of fees, included in total loans was $1,054,000 and $281,000 as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, commercial and industrial loans includes Paycheck Protection Program (PPP) loans in the amount of $1,540,000 and $2,381,000, respectively. The total loan balance for commercial real estate as of December 31, 2023 includes a $1,849,000 positive basis adjustment related to a fair value hedge on a portion of those loans.

The following table presents the activity in the allowance for credit losses for the year 2023 by portfolio segment:

	Construction and Land Development	Real Estate - Other	Commercial and Agriculture	Consumer	Total
Allowance for Credit Losses					
Beginning of year 2023, prior to adoption of ASC 326	$ 339,000	$ 4,913,000	$ 734,000	$ 155,000	$ 6,141,000
Impact of adopting ASC 326	(160,000)	1,527,000	(70,000)	74,000	1,371,000
Provisions (benefit)	-	-	-	-	-
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year 2023	$ 179,000	$ 6,440,000	$ 664,000	$ 229,000	$ 7,512,000

The following table presents the activity in the allowance for credit losses for the year 2022, and the recorded investment in loans and impairment method as of December 31, 2022, by portfolio segment:

	Construction and Land Development	Real Estate - Other	Commercial and Agriculture	Consumer	Total
Allowance for Loan Losses					
Beginning of year 2022	$ 378,000	$ 4,273,000	$ 878,000	$ 20,000	$ 5,549,000
Provisions (benefit)	(39,000)	640,000	(144,000)	135,000	592,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year 2022	$ 339,000	$ 4,913,000	$ 734,000	$ 155,000	$ 6,141,000
Reserves					
Specific	$ -	$ -	$ -	$ -	$ -
General	339,000	4,913,000	734,000	155,000	6,141,000
	$ 339,000	$ 4,913,000	$ 734,000	$ 155,000	$ 6,141,000
Loans Evaluated for Impairment					
Individually	$ -	$ 188,000	$ -	$ -	$ 188,000
Collectively	11,725,000	322,701,000	61,426,000	13,282,000	409,134,000
	$ 11,725,000	$ 322,889,000	$ 61,426,000	$ 13,282,000	$ 409,322,000

The Company 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, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass - Loans classified as pass include loans not meeting the risk ratings defined below.

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
As of December 31, 2023							
Commercial:							
Risk Rating							
Pass	$ 12,615,000	$ 3,363,000	$ 4,664,000	$ 4,421,000	$ 5,996,000	$ 612,000	$ 31,671,000
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	151,000	-	151,000
Doubtful	-	-	-	-	-	-	-
Total commercial loans	$ 12,615,000	$ 3,363,000	$ 4,664,000	$ 4,421,000	$ 6,147,000	$ 612,000	$ 31,822,000
Commercial loans:							
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:							
Risk Rating							
Pass	$ 50,509,000	$ 74,306,000	$ 86,072,000	$ 126,953,000	$ 1,133,000	$ -	$ 338,973,000
Special mention	-	-	-	352,000	-	544,000	896,000
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total commercial real estate loans	$ 50,509,000	$ 74,306,000	$ 86,072,000	$ 127,305,000	$ 1,133,000	$ 544,000	$ 339,869,000
Commercial real estate loans:							
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agricultural:							
Risk Rating							
Pass	$ 12,653,000	$ 13,003,000	$ 779,000	$ 11,786,000	$ 7,324,000	$ -	$ 45,545,000
Special mention	-	-	-	2,039,000	-	-	2,039,000
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total agricultural loans	$ 12,653,000	$ 13,003,000	$ 779,000	$ 13,825,000	$ 7,324,000	$ -	$ 47,584,000
Agricultural loans:							
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows (continued):

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
As of December 31, 2023							
Residential real estate:							
Risk Rating							
Pass	$ 3,109,000	$ 2,201,000	$ 5,981,000	$ 7,477,000	$ 1,194,000	$ -	$ 19,962,000
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	107,000	-	-	107,000
Doubtful	-	-	-	-	-	-	-
Total residential real estate loans	$ 3,109,000	$ 2,201,000	$ 5,981,000	$ 7,584,000	$ 1,194,000	$ -	$ 20,069,000
Residential real estate loans:							
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer - other:							
Risk Rating							
Pass	$ -	$ 11,500,000	$ 1,500,000	$ 40,000	$ 147,000	$ -	$ 13,187,000
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total consumer - other loans	$ -	$ 11,500,000	$ 1,500,000	$ 40,000	$ 147,000	$ -	$ 13,187,000
Consumer - other loans:							
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The risk category of loans by class of loans was as follows as of December 31, 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
Construction and Land Development	$ 11,725,000	$ -	$ -	$ -	$ 11,725,000
Real Estate - Other					
1-4 family residential	20,748,000	-	188,000	-	20,936,000
Multifamily residential	46,711,000	-	-	-	46,711,000
Commercial real estate	253,692,000	1,549,000	-	-	255,241,000
Commercial and Agriculture					
Commercial and industrial	25,893,000	-	-	-	25,893,000
Agriculture production	10,889,000	-	-	-	10,889,000
Secured by farmland	22,450,000	2,195,000	-	-	24,645,000
Other loans	13,282,000	-	-	-	13,282,000
	$ 405,390,000	$ 3,744,000	$ 188,000	$ -	$ 409,322,000

An aging analysis of the loan portfolio by past due, nonaccrual and current loans presented by loan class is as follows as of December 31, 2023:

	30-89 Days Past Due	Over 90 Days Past Due and Still Accruing	Nonaccrual	Current	Total Loans
Construction and Land Development	$ -	$ -	$ -	$ 3,495,000	$ 3,495,000
Real Estate - Other					
1-4 family residential	-	-	107,000	19,962,000	20,069,000
Multifamily residential	-	-	-	46,897,000	46,897,000
Commercial real estate	-	-	-	289,477,000	289,477,000
Commercial and Agriculture			-		
Commercial and industrial	253,000	345,000		31,224,000	31,822,000
Agriculture production	-	-	-	12,751,000	12,751,000
Secured by farmland	-	-	-	34,833,000	34,833,000
Other loans	-	-	-	13,187,000	13,187,000
	$ 253,000	$ 345,000	$ 107,000	$ 451,826,000	$ 452,531,000

An aging analysis of the loan portfolio by past due, nonaccrual and current loans presented by loan class is as follows as of December 31, 2022:

	30-89 Days Past Due	Over 90 Days Past Due and Still Accruing	Nonaccrual	Current	Total Loans
Construction and Land Development	$ -	$ -	$ -	$ 11,725,000	$ 11,725,000
Real Estate - Other					
1-4 family residential	-	-	188,000	20,748,000	20,936,000
Multifamily residential	-	-	-	46,711,000	46,711,000
Commercial real estate	-	-	-	255,241,000	255,241,000
Commercial and Agriculture			-		
Commercial and industrial	-	-	-	25,893,000	25,893,000
Agriculture production	-	-	-	10,889,000	10,889,000
Secured by farmland	-	-	-	24,645,000	24,645,000
Other loans	-	-	-	13,282,000	13,282,000
	$ -	$ -	$ 188,000	$ 409,134,000	$ 409,322,000

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans Without Specific Allowance	Impaired Loans With Specific Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Construction and							
Land Development	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate - Other							
1-4 family residential	357,000	188,000	188,000	-	-	491,000	-
Multifamily residential	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-
Commercial and Agriculture							
Commercial and industrial	-	-	-	-	-	-	-
Agriculture production	-	-	-	-	-	-	-
	$ 357,000	$ 188,000	$ 188,000	$ -	$ -	$ 188,000	$ -

Cash basis income recognized on impaired loans for the years ended December 31, 2023 and 2022 was not material.

At December 31, 2023, the Company had no collateral dependent loans. No loans were modified for borrowers experiencing financial difficulty during the year ended December 31, 2023.

At December 31, 2022, the Company had no recorded investment in loans identified as troubled debt restructurings. No loans were modified as troubled debt restructurings during 2022. There were no loans modified as troubled debt restructuring for which there was a payment default within twelve months following the modification during the year ended December 31, 2022. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms..

Note 4 - Premises and Equipment

A summary of premises and equipment as of December 31 follows:

	2023	2022
Land	$ 111,000	$ 111,000
Bank premises	284,000	284,000
Leasehold improvements	1,145,000	1,127,000
Furniture, fixtures, and equipment	1,146,000	999,000
Gross premises and equipment	2,686,000	2,521,000
Less accumulated depreciation and amortization	(1,927,000)	(1,793,000)
Net Premises and Equipment	$ 759,000	$ 728,000

Depreciation and amortization included in occupancy and equipment expense totaled $178,000 and $158,000 during the years ended December 31, 2023 and 2022, respectively.

Note 5 - Leases

The Company has entered into leases for its Salinas and Monterey, California, branches and administrative offices. The leases expire at various dates through October 31, 2027. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The leases include provisions for periodic rent increases as well as payment by the lessee of certain operating expenses and renewal options. The exercise of renewal options is at the sole discretion of the Company. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.

The balance of ROU assets and lease liabilities are included in other assets and other liabilities on the statements of financial condition. The statement of financial condition and supplemental information at December 31, 2023 and 2022 are shown on the following page.

The Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component. Variable lease cost primarily represents variable payments such as common area maintenance and utilities.

Note 5 - Leases (continued)

The following table represents lease costs and other lease information for the years ended December 31, 2023 and 2022:

	2023	2022
Operating Lease Right-of-Use Assets Classifed as Accrued Interest and Other Assets	$ 1,118,000	$ 685,000
Operating Lease Liabilities Classified as Accrued Interest and Other Liabilities	$ 1,129,000	$ 693,000
Weighted Average Remaining Lease Term, in Years	4.36	2.36
Weighted Average Discount Rate	4.81%	2.23%

	2023	2022
Operating lease cost	$ 433,000	$ 441,000
Variable lease cost	-	-
Short-term lease cost	-	-
Total lease costs	$ 433,000	$ 441,000

	2023	2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	$ 437,000	$ 425,000
Right-of-Use Assets Obtained in Exchange for Lease Obligations	$ 1,533,000	$ 1,513,000

Maturities of lease liabilities for periods indicated:

Year Ending	
2024	$ 458,000
2025	462,000
2026	440,000
2027	91,000
2028	-
Total lease payments	1,451,000
Less imputed interest	(116,000)
Present value of net future minimum lease payments	$ 1,335,000

Note 6 - Deposits

Deposits consist of the following at December 31:

	2023	2022
Deposits		
Noninterest-bearing demand	$ 259,712,000	$ 252,802,000
Savings and NOW accounts	45,320,000	57,310,000
Money market accounts	123,218,000	130,037,000
Time deposits under $250,000	45,675,000	31,333,000
Time deposits $250,000 and over	39,161,000	21,014,000
Total deposits	$ 513,086,000	$ 492,496,000

At December 31, 2023, the scheduled maturities of time deposits are as follows:

Time Deposits	
2024	$ 78,147,000
2025	6,555,000
2026	134,000
2027	-
2028	-
	$ 84,836,000

The Company's ten largest deposit relationships represent approximately $194,143,000 or 38% of the total outstanding deposits of the Company. The loss of any one of these large depositors could have a material impact on our operations. However, some of these large depositors have other business relationships with us such as commercial loans and lines of credit, and or are related parties which we believe mitigates the risk of a material decline in these deposits.

Note 7 - Subordinated Notes and Other Borrowings

In March 2022, the Company issued $17,000,000 of 5.00% subordinated notes that mature on March 21, 2032. The notes bear interest at the fixed rate of 5.00% per annum, payable semi-annually on each January 1 and July 1. The notes reprice after five years on March 21, 2027 to fluctuate at the higher of 5% or the Standard Overnight Fixed Rate (SOFR) plus 305 basis points for the five years remaining. The notes are unsecured and subordinated in right of payment to the payment of our existing and future senior indebtedness and structurally subordinated to all existing and future indebtedness of our subsidiaries. Unamortized debt issuance costs related to these notes, totaled approximately $172,000 as of December 31, 2023. Proceeds from the sale of the notes were primarily used to contribute $15,300,000 in capital in March 2022 to the Bank subsidiary for general corporate purposes. As of December 31, 2023 the remainder of the net proceeds has been contributed to the Bank for general corporate purposes.

The Bank may borrow up to $26,000,000 overnight on an unsecured basis from three correspondent banks. As of December 31, 2023 and 2022, no amounts were outstanding under these arrangements.

As of December 31, 2023, the Bank had an available line of credit with the Federal Home Loan Bank of San Francisco (FHLB) secured by the assets of the Bank. Under this line, the Bank may borrow up to $139,027,000 subject to providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLB. The Bank has pledged a majority of its CRE, Multi-Family, Agricultural and C&I loans as collateral for this line. As of December 31, 2023 and 2022, no advances were outstanding under this arrangement.

Note 8 - Income Taxes

The provision for income taxes for the years ended December 31, consists of the following:

	2023	2022
Current		
Federal	$ 1,316,000	$ 1,540,000
State	779,000	865,000
	2,095,000	2,405,000
Deferred taxes	(63,000)	(160,000)
	$ 2,032,000	$ 2,245,000

The Company is subject to federal income tax and franchise tax of the State of California. Income tax returns for years ending on or after December 31, 2019 and 2018 are open to audit by the federal and state authorities, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

A comparison of the federal statutory income tax rates to the Bank's effective income tax rates follows:

	2023		2022	
	Amount	Rate	Amount	Rate
Statutory federal tax	$ 1,445,000	21.0 %	$ 1,565,000	21.0 %
State tax, net of federal benefit	589,000	8.5	636,000	8.5
Tax free income	(23,000)	(0.3)	(21,000)	(0.3)
Other items, net	21,000	0.3	65,000	0.9
	$ 2,032,000	29.5 %	$ 2,245,000	30.1 %

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statement of financial condition at December 31:

	2023	2022
Deferred Tax Assets		
Depreciation differences	$ 68,000	$ 87,000
Allowance for loan losses due to tax limitations	1,302,000	794,000
Nonaccrual loan interest	62,000	51,000
Stock-based compensation	41,000	21,000
Unrealized loss on AFS securities	221,000	286,000
Other assets	748,000	706,000
	2,442,000	1,945,000
Deferred Tax Liabilities		
Deferred loan costs	(253,000)	(303,000)
Other liabilities	(628,000)	(490,000)
	(881,000)	(793,000)
Net deferred tax assets	$ 1,561,000	$ 1,152,000

Note 9 - Other Expenses

Other expenses as of December 31 are comprised of the following:

	2023	2022
Professional fees	$ 637,000	$ 513,000
Data processing	1,380,000	1,423,000
Director fees and expenses	593,000	534,000
Office expenses	106,000	130,000
Marketing and business promotion	398,000	377,000
Insurance	378,000	199,000
Other expenses	730,000	665,000
	$ 4,222,000	$ 3,841,000

Note 10 - Related Party Transactions

In the ordinary course of business, the Bank has extended credit to and received deposits from certain members of its Board of Directors and Executive Officers and companies in which they have an interest. These related parties had outstanding deposits at the Bank approximating $69,717,000 and $6,278,000 and outstanding loans of $2,094,000 plus $2,000,000 in available credit and $500,000 outstanding plus $0 in available credit, at December 31, 2023 and 2022, respectively.

Note 11 - Earnings Per Share (EPS)

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS under the two-class method after the retroactive application of the 10% stock dividend declared on November 21, 2022 and issued on January 20, 2023:

	2023		2022	
	Income	Shares	Income	Shares
Net income as reported	$ 4,847,000	-	$ 5,207,000	-
Less earnings allocated to participating securities	(40,000)		(38,000)	
Shares outstanding at year-end		4,454,301		4,464,329
Less weighted average shares of participating securities		(36,928)		(32,237)
Impact of weighting shares issued during the year		(18,215)		(34,659)
Used in basic and dilutive EPS	$ 4,807,000	4,399,158	$ 5,169,000	4,397,433

On February 23, 2024 the Board of Directors approved a 10% stock dividend for shareholders of record as of March 28, 2024. The dividend is expected to be issued on or around April 15, 2024.

Note 12 - Commitments

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Company's financial statements.

The Company's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans reflected in the financial statements.

As of December 31, 2023 and 2022, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2023	2022
Commitments to extend credit	$ 55,226,000	$ 56,411,000
Standby letters of credit	2,102,000	2,102,000
	$ 57,328,000	$ 58,513,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, is based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate, equipment, or personal property.

Note 13 - Employee Benefit Plan

The Company adopted a 401(k) Plan for its employees. Under the plan, eligible employees may defer a portion of their salaries. The plan also provides for a matching contribution by the Company. The Company made contributions of $138,000 for both 2023 and 2022.

Note 14 - Stock-Based Compensation

During 2017 the board of directors of the Company approved the 2017 Omnibus Stock Incentive Plan (the 2017 Plan). The plan was approved in July 2018 by the shareholders. Under the terms of the 2017 Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The 2017 Plan also permits the grant of stock appreciation rights (SARs), restricted shares, deferred shares, performance shares and performance unit awards. The 2017 Plan provides for the total number of awards of common stock that may be issued over the term of the plan not to exceed 1,079,098 shares, of which a maximum of 539,549 shares may be granted as incentive stock options. The aggregated number of awards that may be granted to an individual participant may not exceed 100,000 shares per year. Stock options and performance share and unit awards are granted at a price not less than 100% of the fair market value of the stock on the date of grant. The 2017 plan provides for accelerated vesting if there is a change of control as defined in the 2017 Plan. Equity awards generally vest over three to five years. Stock options expire no later than ten years from the date of grant.

The Company recognized stock-based compensation cost of $169,000 and $159,000 in 2023 and 2022.

A summary of the status of the Company's outstanding restricted shares as of December 31, 2023 and changes during the year ended are as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2023	61,304	$ 10.64
New stock grants	-	$ -
Shares vested	(21,971)	$ 10.36
Shares forfeited	(10,028)	$ 10.44
Nonvested at December 31, 2023	29,305	$ 10.92

The total intrinsic value of restricted shares vested during the years ended December 31, 2023 and 2022 was approximately $228,000 and $145,000, respectively. As of December 31, 2023, there was $320,000 of total unrecognized compensation cost related to the restricted shares that will be recognized over a weighted-average period of 0.99 years.

Note 15 - Fair Value Measurements

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Debt Securities Available for Sale: The fair values of debt securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities resulting in a level 2 classification.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2023:

December 31, 2023	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	$ 2,812,000	$ -	$ 2,812,000	$ -
U.S. Government agency obligations	2,784,000	-	2,784,000	-
Mortgage-backed securities	18,724,000		18,724,000	
State and Political subdivisions	2,626,000	-	2,626,000	-
Total investments at fair value	$ 26,946,000	$ -	$ 26,946,000	$ -

December 31, 2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury securities	$ 3,702,000	$ -	$ 3,702,000	$ -
U.S. Government agency obligations	3,672,000	-	3,672,000	-
Mortgage-backed securities	17,737,000		17,737,000	
State and Political subdivisions	2,540,000	-	2,540,000	-
Total investments at fair value	$ 27,651,000	$ -	$ 27,651,000	$ -

Note 16 - Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument.

These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The fair value hierarchy level and estimated fair value of financial instruments at December 31, 2023 and 2022 are summarized as follows:

		2023		2022	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Cash and cash equivalents	Level 1	$ 97,395,000	$ 97,395,000	$ 112,209,000	$ 112,209,000
Time deposits in other banks	Level 1	2,450,000	2,450,000	3,185,000	3,185,000
Debt securities available for sale	Level 2	26,946,000	26,946,000	27,651,000	27,651,000
Loans, net	Level 3	445,019,000	428,370,000	403,181,000	377,043,000
Federal home loan and other bank stock	N/A	2,565,000	N/A	2,277,000	N/A
Accrued interest receivable	Level 2	2,099,000	2,099,000	1,722,000	1,722,000
Financial Liabilities					
Deposits	Level 2	513,086,000	525,278,000	492,496,000	495,398,000
Accrued interest payable	Level 2	68,000	68,000	15,000	15,000

Note 17 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the 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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The 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 as set forth in the tables below. Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2023 and 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category).

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020, and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to Section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides graduated increases in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to Section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio.

Note 17 - Regulatory Matters (continued)

Qualifying banking organizations that elect to use the community bank leverage ratio framework and maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2023 and 2022, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The following table also sets forth the Bank's actual capital amounts and ratios at December 31:

	Actual		Required Capital To Be Well-Capitalized Under Prompt Corrective Action CBLR Framework	
(Ratio based on average assets)	Amount	Ratio	Amount	Ratio
2023 Tier 1 capital	$ 68,935,000	13.02%	$ 47,641,000	9.00%
2022 Tier 1 capital	$ 64,225,000	12.68%	$ 45,568,000	9.00%

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made to the bank's shareholders during the same period.

Note 18 - Derivatives and Hedging

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

An interest rate swap with notional amount totaling $100 million as of December 31 , 2023 was designated as a fair value portfolio layer hedge of certain fixed rate commercial real estate loans. The hedge was determined to be effective during the period presented. The Company expects the hedge to remain effective during the remaining term of the swap.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustments for fair value hedges as of December 31 :

Line item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)	
	2023	2022	2023	2022
Loans receivable	$227,209,000	$ -	$1,849,000	$ -

The carrying amount represents the amortized cost basis of the closed portfolio used to designate a hedging relationship in which the hedged item is the stated amount of loans in the closed portfolio anticipated to be outstanding for the designated hedge period.

Pacific Valley Bancorp Corporate Information

Annual Meeting of Shareholders

The annual meeting of shareholders of Pacific Valley Bancorp will be held as a telephone conference meeting, on Thursday, May 23, 2024 at 4:00pm. All shareholders are cordially invited to call in. Call in information will be provided in a separate communication.

Stock Transfer Agent and Registrar

Pacific Valley Bancorp's stock transfer agent, Continental Stock Transfer & Trust, maintains all shareholder records and can assist with stock transfer and registration, address changes, and changes or corrections in social security or tax identification numbers.

Continental Stock Transfer & Trust
Attn: Customer Service
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New York NY 10004-1561

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Stock Listing

Pacific Valley Bancorp is listed on the Over the Counter – Pink Sheets (www.otcbb.com) under the symbol PVBK.

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President & CEO, Pacific Valley Bank

Nick Huntington
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Robert LaBrier
Retired Senior Vice President, American Ag Credit

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Harry Wardwell
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Jana Hatten
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Byron Owings
Executive Vice President & Chief Credit Officer

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