BAY COMMUNITY BANCORP

2022
ANNUAL REPORT

OVER 25 YEARS OF STABILITY

BAY COMMUNITY BANCORP BOARD OF DIRECTORS

WILLIAM E. PURCELL
CHAIRMAN OF THE BOARD

WILLIAM S. KELLER
DIRECTOR

TRACEY A. ENFANTINO
DIRECTOR

RAYMOND J. FIGONE
DIRECTOR

BEN MACKOVAK
DIRECTOR

COMMUNITY BANK OF THE BAY BOARD OF DIRECTORS

WILLIAM E. PURCELL
CHAIRMAN OF THE BOARD

SAMUEL M. HEDGPETH III
VICE CHAIRMAN

EDDIE C. CHEUNG
DIRECTOR

TRACEY A. ENFANTINO
DIRECTOR

RAYMOND J. FIGONE
DIRECTOR

BEN MACKOVAK
DIRECTOR

PATRICIA REMCH
DIRECTOR

KENNETH SEIDEMAN
DIRECTOR

FRANK TSAI
DIRECTOR

COMMUNITY BANK OF THE BAY MANAGEMENT TEAM

WILLIAM S. KELLER
PRESIDENT & CEO/DIRECTOR

MUKHTAR ALI
EXECUTIVE VICE PRESIDENT, CHIEF CREDIT OFFICER

DANIEL A. NORTHWAY
SVP, CHIEF FINANCIAL OFFICER

KAY F. ADLER
SVP, CHIEF OPERATING OFFICER

CHAULA M. PANDYA
SVP, CHIEF TECHNOLOGY OFFICER

MARK ROACH
SVP, CHIEF BANKING OFFICER

ERICK KOSTUCHEK
SVP, CHIEF CUSTOMER EXPERIENCE OFFICER

LAURA AERNI
SVP, CHIEF RISK OFFICER

COMMUNITY BANK OF THE BAY SVP TEAM

KALOYAN BENTCHEV
KARRY KARAVOLOS BRYAN
DANIEL FUJIMOTO
STEVEN LAYSHOCK
NATHAN LABUDDE
DAVID MEYER
MARGIE PERRY
CAROL PITTS
TOM RODRIQUEZ
CARY SCHROEDER
HELEN SHIPP
KAREN VANDENBERG

Values are not words. They are **who we are.**

RELATIONSHIP · COMMITMENT · SUSTAINABILITY · EMPOWERMENT · TRUST · RESPECT

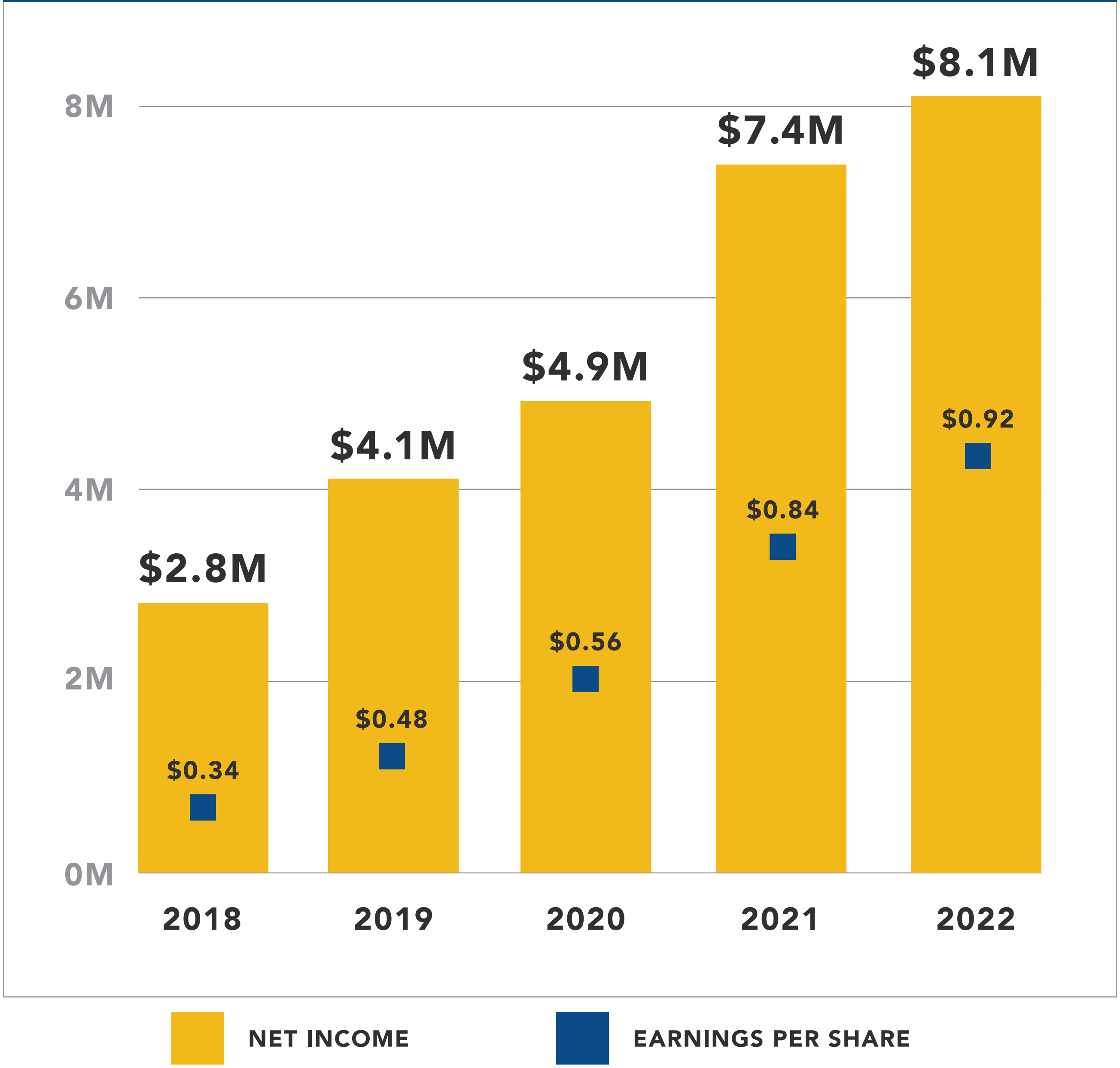
BAY COMMUNITY BANCORP
5 YEAR FINANCIAL OVERVIEW

NET INCOME

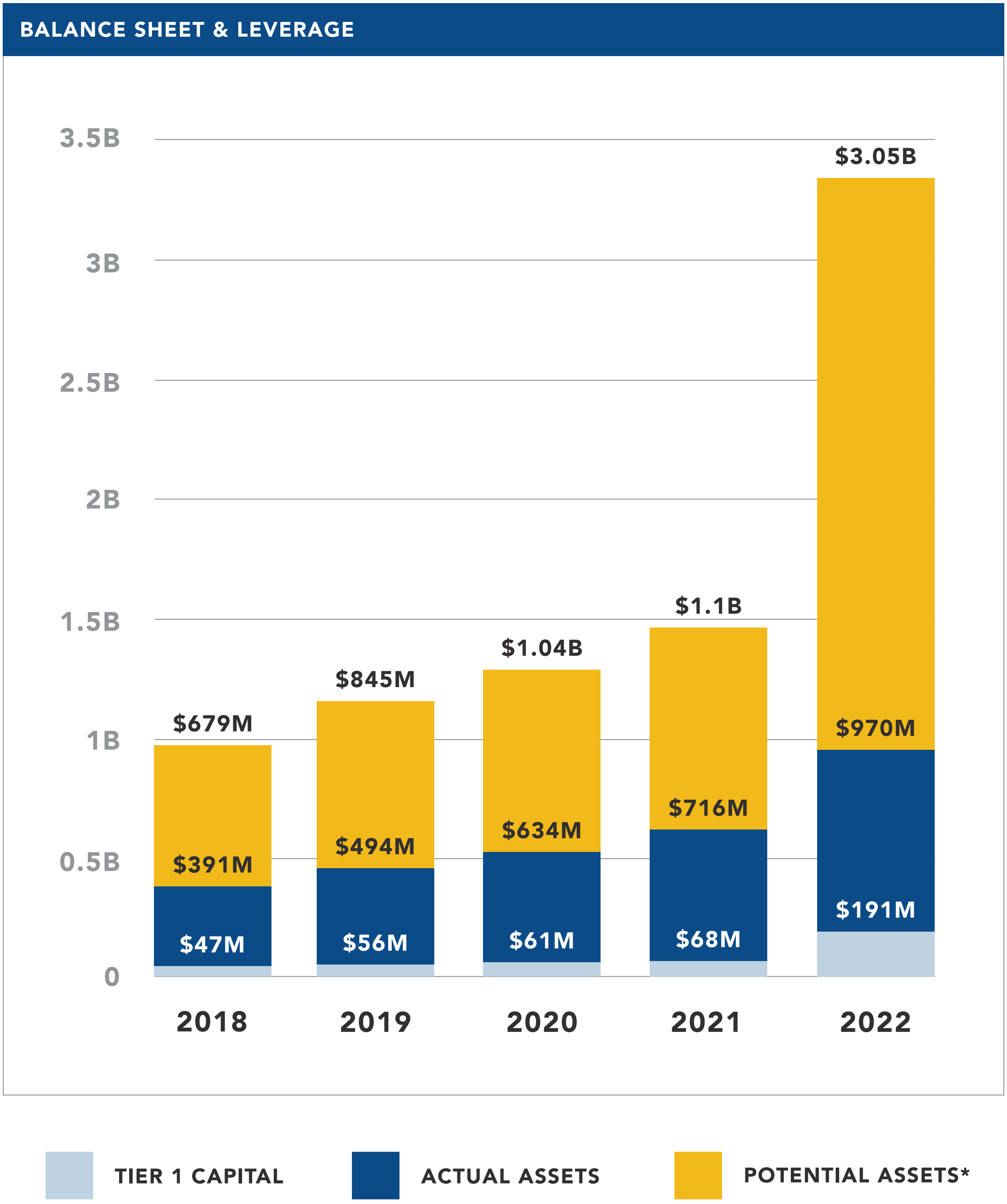
30%

COMPOUND ANNUAL GROWTH

PROFITABILITY



BAY COMMUNITY BANCORP
5 YEAR LEVERAGE POTENTIAL



*Potential Total Assets for Well Capitalized under Tier 1 Risk Based Capital standard (assumes Risk-Weighted Asset mix is unchanged from 2022).

BAY COMMUNITY BANCORP

2023 Shareholder Letter

Dear Bay Community Bancorp Shareholder:

2022 was a solid all-around year for our Bank as we delivered strong financial performance and the responsible financial products and services that make us a premier Community Development Financial Institution ("CDFI"), and ultimately allowed us to close on a transformative $119.4 million capital investment from the U.S. Treasury.

From a financial perspective we generated record Net Income of $8.1 million in 2022 compared to $7.4 million in the prior year, which included a non-recurring $1.8 million grant from the CDFI Fund. Adjusting for the effect of the grant results in core profitability growth of 31.5% in 2022.

Total Assets also finished the year at a record $969.9 million compared to the prior year's $715.5 million. The 35.5% increase in total assets was helped by the $119.4 million capital investment that will be discussed in detail later, but also solid core deposit and loan growth. Deposits increased $95.7 million or 15.7% to $706.9 million, and loans increased $117.2 million or 22.0% to $650.7 million. Loan growth was especially impressive as it was net of a $38.6 million reduction in Paycheck Protection Loans. Core loan growth was relatively evenly split with 54% occurring in the first six months when the weighted average yield was 4.49%, and 46% in the last six months when the weighted average yield was 6.04%.

The timing of the loan growth was more relevant than usual because 2022 also saw the Federal Reserve Bank embark on a series of interest rate increases in an attempt to curb inflation that came about as the economy reopened after the pandemic. Many officials and economists initially expected that inflation would be transitory and the rate hike cycle would be limited, but as inflation persisted the Federal Reserve's interest rate efforts turned into one of the most aggressive in history. In total the central bank raised rates 4.25% over a series of seven meetings in 2022. These increases, and the ones that followed early in 2023 set the stage for the conditions we are now navigating.

Like many banks we initially benefited from the Federal Reserve's rate increases. The combination of being asset sensitive and growing earning assets into higher rates easily offset a minimal increase in the cost of funds and our mid-year Net Interest Margin expanded 17 bp to 3.60%. Our yield on Earning Assets increased 18 bp to 3.85% while our Cost of Funds increased by only 1 bp to 0.64%. Demand Deposits increased $16.4 million, while interest bearing accounts declined by $6.4 million, but were replaced by $52.5 million of time deposits that we added in order to extend duration and to repay $14 million of maturing Federal Home Loan Bank borrowings.

As inflation persisted and the Fed continued to raise rates, the second half of the year proved to be very different from the first. In the September-October timeframe we started to see deposits move aggressively into interest bearing accounts and money market funds outside the bank. Across the industry, deposit betas, defined as the portion of a macro rate change that is passed on to depositors, increased measurably. By December our Cost of Funds had increased to 1.48% as Demand Deposits finished the year down $26.7 million and we responded to market expectations by raising rates across the deposit portfolio. Entering 2023 we knew that controlling our funding costs would need to be our key focus.

We noted earlier that in 2021 we received a $1.83 million Rapid Response grant from the CDFI Fund. This grant was part the Federal Government's COVID-19 relief effort as authorized by The Consolidated Appropriations Act, 2021 ("2021 CARES Act"). This Act included a $12 billion to increase financial support in communities that had been disproportionately impacted by the pandemic. The Rapid Response grants accounted for $3 billion while the rest was earmarked for Treasury to make preferred stock investments directly into Minority Depository Institutions ("MDI's") and CDFI's like Community Bank of the Bay through the Emergency Capital Investment Program ("ECIP").

MDI and CDFI banks in good regulatory standing were eligible to apply for an ECIP investment of up to 15% of their Total Assets, which for us was just under $120 million.
On December 14, 2021 at the annual Freedman's Bank Forum in Washington, D.C. Secretary of the Treasury Janet L. Yellen and Vice President Kamala Harris announced that $8.7 billion in Emergency Capital Investments had been granted to 186 MDI and CDFI banks and credit unions to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially low-income and underserved communities that may have been disproportionately impacted by the economic effects of the COVID-19 pandemic.

Community Bank of the Bay is proud to have been one of only five banks and six credit unions in California to be approved by the US Treasury for investment under ECIP, and in June 2022 we closed on the maximum eligible investment of $119.4 million in spite of the program being oversubscribed by almost 50%.

Treasury's investment of Perpetual Preferred Stock is treated as Tier 1 Capital and can support balance sheet growth past $3 billion. Other terms, especially a maximum dividend rate of 2.00%, that is waived for the first two years and then can be "bought down" to 0.50% with increased qualifying lending and development activities, are also extremely favorable. Shareholders are encouraged to review the most recent information on the ECIP Program at the US Treasury's website, here:

(https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program

The successful close of this investment was likely the most transformative event in our Bank's history, and its value has only grown as further rate increases exposed large investment losses that ultimately led to the failure of Silicon Valley Bank and Signature Bank, and called into question the viability of a number of other regional banks. All of this brought renewed focus on the safety and soundness of the banking system, and every bank found themselves having to defend their financial strength.

We cannot understate the safety and stability that our capital base conveyed to our depositors when anxiety was running high. Many CEO's issued open letters to their bank's clients stating reiterating how different they were from those banks that failed and how they conservatively carried a capital position some fraction above the regulatory standard for Well Capitalized. We issued a similar client letter (attached for your review), but thanks to our recent ECIP investment we were able to quote a capital position more than three times the Well Capitalized standard.

Ultimately we intend to use our new capital to grow the bank and we know that will require further investments in assets, systems and people. At least in this area the recent banking turmoil has worked to our advantage and we have already met with a number of high quality candidates. We have already hired two new Relationship Managers and are confident that we will hire more as this market presents us with one of the best talent acquisition opportunities in over a decade.

It is also worth considering what happens if Treasury exercises its right to sell the preferred shares. Since we have a contractual first right to buy back the shares we have effectively been granted a valuable option. If Treasury holds or sells the shares at a premium we will simply continue to use ECIP as cost-effective long term capital regardless of the investor, but if market conditions warrant the sale at a discount, we could exercise our repurchase rights and transfer the difference between issuance and repurchase to shareholder equity.

In summary, ECIP's relative size compared to our common equity, favorable capital treatment and dividend yield, its embedded repurchase option, and the timing of its receipt just as the interest rate cycle began provides us with substantial strength and flexibility. We can weather a recession better than our peers and we can still take advantage of opportunities that may arise.

We are excited by the opportunities ahead and understand that we must meet the increased expectations of a larger financial institution. We are working hard to meet and exceed those expectations, and we are confident that we will do so while remaining fully dedicated to the CDFI principals that differentiate us. We hope that you are proud of your Bank and as excited about its future as we are. We appreciate your continued support.

Sincerely,

William S. Keller
President & CEO

William E. Purcell
Chairman of the Board

COMMENTS ON BANKING INDUSTRY EVENTS

March 20, 2023

Dear Community Bank of the Bay Client,

Community Bank of the Bay is committed to providing you with the most professional, personal, and safe banking experience available. We realize that these priorities take on different importance at different times. Our professional and personal service is on display daily, but the safety and soundness of our Bank is always our management and board's top priority. While other banks have recently been exposed as having overly concentrated business mixes and poor risk management practices, Community Bank of the Bay has none of those attributes. We are not like those banks and I will share with you some of the reasons why. (All data from publicly available December 31, 2022, FDIC Call Reports.)

Diversification is a time-honored risk management tool, and we are grateful to have a well-diversified, solid client base. Each of the recent bank failures had large concentrations on both sides of their balance sheet from specific industries, or subindustries, such as crypto assets and related businesses. When these industries came under pressure, either due to cyclical patterns or even possible fraud, the banks' business contracted rapidly and exposed large losses in their securities portfolio. Our Bank does not have these types of concentrated positions, and as a result, our deposit base and loan portfolio reflect a broad spectrum of individuals, businesses, and non-profits.

A bank's securities portfolio is supposed to be a safe store of liquidity, but since all bonds will experience some interim market loss as interest rates rise, management must carefully limit this risk even for securities they expect to be held to maturity. One of the banks that recently failed reported total pre-tax losses in its Held to Maturity securities portfolio of $15.16 billion against a reported equity position of $15.46 billion. The unrecognized losses almost equaled the bank's capital. Our management has taken a much more conservative approach to our Bank's securities portfolio. Our unrealized after-tax loss in the Held to Maturity portfolio is only $1.9 million against total equity of $183.6 million, or a minimal 1.0 percent. Moreover, $145 million, or 56.4 percent of our portfolio consists of short-term "laddered" US Treasury bonds with regular monthly maturities. Along with cash balances at the Federal Reserve Bank, this portfolio provides us with immediate access to significant liquidity, even before counting our contingent funding and borrowing options.

Finally, no discussion of bank safety can be complete without reviewing the institution's Equity Capital position. The level of a bank's capital in relation to its total size is likely the most relied upon metric of financial strength. Since the Great Recession, Community Bank of the Bay has maintained Capital levels in excess of the highest regulatory standard of "Well Capitalized". That level of safety was a financial commitment we made to our shareholders, clients and our regulatory partners, and we have never fallen short of that standard.

In June 2022, our financial strength reached an even higher level when after a competitive process, our Bank received a $119.4 million investment from the U.S. Department of Treasury. This investment increased our Capital to a level of unparalleled strength. **Our Total Capital is not simply in excess of the "Well Capitalized" standard; it is 3.26 times that standard and ranks Community Bank of the Bay in the top 5 percent of peer banks nationwide, while Leverage is even better at 3.85 times the regulatory standard and ranks us in the top 2 percent of peer banks nationwide.** There are very few banks that can rely on their Capital position for safety the way we can.

We recognize that there are uncertain times and hope this information provides you with the confidence that you deserve. In all areas of our Bank, from how we serve our clients and communities to how we manage risk, we strive to be worthy of your support and our motto:

Community Bank of the Bay

Different. On Purpose.

Thank you for your trust in us. We will work hard to continually earn it.

Sincerely,

William S. Keller

President & Chief Executive Officer, Community Bank of the Bay

BAY COMMUNITY BANCORP

Statement of Management's Responsibilities

The management of Bay Community Bancorp (the "Company") is responsible for preparing the Company's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income; and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions. The following subsidiary institutions of the Company that are subject to Part 363 are included in this assessment of compliance with these designated laws and regulations: Community Bank of the Bay.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year ended December 31, 2022. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year ended December 31, 2022. The following subsidiary institutions of the Company that are subject to Part 363 are included in this assessment of compliance with these designated laws and regulations: Community Bank of the Bay.

Bay Community Bancorp

William S. Keller
Chief Executive Officer

Date: MARCH 31, 2023

Daniel A. Northway
Chief Financial Officer

Date: March 31, 2023

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WWW.BANKCBB.COM • **Stock Symbol** CBOBA

Report of Independent Auditors
and Consolidated Financial Statements

Bay Community Bancorp and Subsidiary

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors and Shareholders
Bay Community Bancorp

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Bay Community Bancorp and Subsidiary (the “Company”), which comprise the consolidated balance sheets as of December 31, 2022, and 2021, 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 Bay Community Bancorp and Subsidiary as of December 31, 2022, and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bay Community 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Bay Community 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bay Community 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.

Moss Adams LLP

San Francisco, California
March 31, 2023

Consolidated Financial Statements

Bay Community Bancorp and Subsidiary
Consolidated Balance Sheets
December 31, 2022 and 2021

ASSETS

	2022	2021
Cash and due from banks	$ 39,712,425	$ 79,281,401
Federal funds sold	276,337	2,661,130
Total cash and cash equivalents	39,988,762	81,942,531
Interest-bearing deposits in banks	11,165,350	11,159,738
Investment securities available-for-sale	209,541,214	53,010,204
Investment securities held-to-maturity	34,500,000	18,000,000
Loans, less allowance for loan losses of $6,889,222 in 2022 and $6,280,728 in 2021	650,703,004	533,520,674
Premises and equipment, net	1,045,511	1,292,240
Bank-owned life insurance	7,784,925	7,579,123
Interest receivable and other assets	15,129,149	9,049,783
Total assets	$ 969,857,915	$ 715,554,293

LIABILITIES AND SHAREHOLDERS' EQUITY

	2022	2021
Deposits		
Non-interest bearing	$ 203,013,091	$ 237,541,424
Interest bearing	502,894,190	372,692,952
Total deposits	705,907,281	610,234,376
Interest payable and other liabilities	4,604,731	3,786,464
Other borrowings	74,500,000	33,500,000
Total liabilities	785,012,012	647,520,840
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock, $1,000 par value; 10,000,000 shares authorized in 2022; 119,413 shares issued and outstanding in 2022; none in 2021	119,368,583	-
Class A common stock, voting, no par value; 20,000,000 shares authorized; 8,671,958 and 8,814,208 shares issued and outstanding in 2022 and 2021, respectively	48,799,788	50,346,572
Class B common stock, non-voting, no par value; 10,000,000 shares authorized; 56,844 shares issued and outstanding in 2022 and 2021	1,421,100	1,421,100
Retained earnings	23,060,498	16,530,590
Accumulated other comprehensive loss, net of taxes	(7,804,066)	(264,809)
Total shareholders' equity	184,845,903	68,033,453
Total liabilities and shareholders' equity	$ 969,857,915	$ 715,554,293

 See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
INTEREST INCOME		
Interest and fees on loans	$ 28,808,189	$ 24,971,589
Interest on investment securities	4,529,974	1,114,327
Interest on federal funds sold	21,249	2,604
Interest on deposits in banks	1,541,026	241,099
Total interest income	34,900,438	26,329,619
INTEREST EXPENSE		
Interest expense on deposits	4,018,973	1,180,336
Interest on borrowings	665,377	594,808
Total interest expense	4,684,350	1,775,144
Net interest income	30,216,088	24,554,475
PROVISION FOR LOAN LOSSES	400,000	850,000
Net interest income after provision for loan losses	29,816,088	23,704,475
NON-INTEREST INCOME		
Service charges	211,914	161,400
Government grant	170,699	1,826,265
Other income	635,748	623,859
Total non-interest income	1,018,361	2,611,524
NON-INTEREST EXPENSE		
Salaries and employee benefits	12,006,601	9,545,295
Stock option expense	332,021	417,009
Occupancy and equipment	1,390,174	1,236,427
Other expenses	5,662,770	4,572,055
Total non-interest expense	19,391,566	15,770,786
Net operating income before provision for income taxes	11,442,883	10,545,213
INCOME TAX EXPENSE	3,381,536	3,131,803
NET INCOME	$ 8,061,347	$ 7,413,410
NET INCOME PER SHARE -- BASIC	$ 0.92	$ 0.84
NET INCOME PER SHARE -- DILUTED	$ 0.89	$ 0.82

Bay Community Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	2022	2021
NET INCOME	$ 8,061,347	$ 7,413,410
CHANGE IN UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE	(10,693,134)	(935,121)
INCOME TAX BENEFIT	3,153,877	276,456
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX	(7,539,257)	(658,665)
COMPREHENSIVE INCOME	$ 522,090	$ 6,754,745

See accompanying notes and report of independent auditors.

Bay Community Bancorp and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2022 and 2021

	ECIP Preferred Stock		Class A Common Stock		Class B Common Stock				
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total Shareholders' Equity
BALANCES, January 1, 2021	-	$ -	8,729,986	$ 49,755,931	56,844	$ 1,421,100	$ 10,176,200	$ 393,856	$ 61,747,087
Stock option exercised	-	-	84,222	173,632	-	-	-	-	173,632
Stock option expense	-	-	-	417,009	-	-	-	-	417,009
Dividend paid on common stock	-	-	-	-	-	-	(1,059,020)	-	(1,059,020)
Net income	-	-	-	-	-	-	7,413,410	-	7,413,410
Other comprehensive loss, net	-	-	-	-	-	-	-	(658,665)	(658,665)
BALANCES, December 31, 2021	-	-	8,814,208	50,346,572	56,844	1,421,100	16,530,590	(264,809)	68,033,453
Issuance of perpetual preferred	119,413	119,413,000	-	-	-	-	-	-	119,413,000
Capitalized issuance cost	-	(44,417)	-	-	-	-	-	-	(44,417)
Repurchase of common shares	-	-	(284,000)	(2,297,400)	-	-	-	-	(2,297,400)
Stock options exercised and restricted stock issued	-	-	141,750	418,595	-	-	-	-	418,595
Stock options expense and restricted stock expense	-	-	-	332,021	-	-	-	-	332,021
Dividends paid on common stock	-	-	-	-	-	-	(1,531,439)	-	(1,531,439)
Net income	-	-	-	-	-	-	8,061,347	-	8,061,347
Other comprehensive loss, net	-	-	-	-	-	-	-	(7,539,257)	(7,539,257)
BALANCES, December 31, 2022	119,413	$ 119,368,583	8,671,958	$ 48,799,788	56,844	$ 1,421,100	$ 23,060,498	$ (7,804,066)	$ 184,845,903

Bay Community Bancorp and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,061,347	$ 7,413,410
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	400,000	850,000
Change in deferred loan origination fees, net	(317,993)	439,797
Depreciation and amortization	404,491	467,981
Net amortization of premiums and discounts on investments available-for-sale	(345,307)	259,027
Stock option expense	332,021	417,009
Increase in cash surrender value of bank owned life insurance	(205,802)	(241,899)
Change in interest receivable and other assets	(1,973,033)	83,997
Change in interest payable and other liabilities	818,267	251,416
Net cash provided by operating activities	7,173,991	9,940,738
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from principal repayments from available-for-sale investment securities	6,118,789	6,339,304
Purchases of available-for-sale investment securities	(172,997,626)	(35,766,057)
Purchases of held-to-maturity securities	(16,500,000)	(9,000,000)
Purchase of FHLB stock	(986,800)	(370,300)
Change in interest-bearing deposits in banks	(5,612)	685,759
Net increase in originated loans	(117,264,337)	(50,718,271)
Purchases of premises and equipment	(123,418)	(39,072)
Proceeds from tenant improvement allowance	-	142,380
Net cash used in investing activities	(301,759,004)	(88,726,257)

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, interest bearing,		
and savings deposits	25,352,427	116,750,053
Net increase (decrease) in time deposits	70,320,478	(37,767,439)
Net increase (decrease) in other borrowings	41,000,000	(4,000,000)
Repurchase of common stock	(2,297,400)	-
Dividends paid on common stock	(1,531,439)	(1,059,020)
Issuance of preferred stock, net	119,368,583	-
Proceeds from exercise of stock options	418,595	173,632
Net cash provided by financing activities	252,631,244	74,097,226
NET DECREASE IN CASH AND CASH EQUIVALENTS	(41,953,769)	(4,688,293)
CASH AND CASH EQUIVALENTS, beginning of year	81,942,531	86,630,824
CASH AND CASH EQUIVALENTS, end of year	$ 39,988,762	$ 81,942,531

	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	$ 3,764,126	$ 1,215,958
Income taxes	$ 3,830,000	$ 3,850,000
Non-cash investing and financing activities:		
Change in unrealized losses on available-for-sale securities	$ 10,693,134	$ 935,121

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Bay Community Bancorp ("Company") was incorporated in the State of California and began operations on December 7, 2020. The Company is the parent corporation and sole shareholder of its Subsidiary, Community Bank of the Bay ("Bank"). The Bank is a California state chartered bank that commenced banking operations on July 22, 1996. The Bank provides a range of banking services to individuals and businesses in the greater San Francisco Bay area, especially businesses employing residents of low and moderate income neighborhoods. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Consolidation

The consolidated financial statements include the accounts of Bay Community Bancorp and its wholly owned subsidiary, Community Bank of the Bay. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The allowance for loan losses is the most significant accounting estimate reflected in the Company's consolidated financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value, as appropriate. The allowance is based on estimates, and ultimate losses may vary from current estimates. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Company believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurances that the Company could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value of the collateral has been identified, the Company establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other significant management judgments and accounting estimates reflected in the Company's financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loans;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of stock option awards; and
- Determination of the fair value of financial instruments.

Concentrations of Credit Risk

Assets that subject the Company to concentrations of credit risk consist of loans, bank subordinated debt, and deposits in banks. Most of the Company's customers are located within Alameda and Contra Costa counties and the surrounding areas. The Company's primary lending products are discussed in Note 5 to the consolidated financial statements. The Company did not have any significant concentrations in its business with any one customer or industry. The Company obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies and are based upon the details underlying each loan agreement.

As of December 31, 2022 and 2021, the Company had cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers cash, due from banks, federal funds sold, and securities purchased under agreements to resell to be cash equivalents. All have original maturities of three months or less.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks includes money market accounts and time deposits with original maturities greater than ninety days. These deposits are carried at cost, which approximates fair value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-Sale Investment Securities

Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity. Management determines the appropriate classification of its investment securities at the time of purchase and may only change the classification in certain limited circumstances.

Gains and losses on the sale of investment securities are computed using the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each consolidated financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

For debt securities that are considered other than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income (loss).

Held-to-Maturity Investment Securities

Securities are classified as held-to-maturity if the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives.

Covenants in the purchase agreements of some of the securities classified as held-to-maturity generally restrict the Company's ability to sell or assign its interest without the consent of the issuer. Management periodically assesses each held-to-maturity debt issue to determine if it is impaired due to a decline in the financial condition of the issuing entity. For securities that are determined to be impaired, the Company will recognize a loss in earnings. An impairment loss is calculated as the difference between the issue's cost basis and the present value of its expected future cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Federal Home Loan Company Stock

In order to borrow from the Federal Home Loan Company ("FHLB"), the Bank is required to maintain an investment in FHLB capital stock. The investment of $3,279,500 and $2,292,700 at December 31, 2022 and 2021, respectively, is carried at cost, redeemable at par, at the discretion of the FHLB, and included in interest receivable and other assets on the consolidated balance sheets. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value.

Loans and Loan Fees

Loans are reported at their principal outstanding balance net of charge-offs. Loan origination fees and certain direct loan origination costs are deferred and the net amounts are amortized to interest income by a method that approximates a level yield over the contractual life of the underlying loans.

Income Recognition on Loans

Interest on loans, other than discounted installment loans, is credited to income based on the principal amount outstanding on a daily basis. Interest on discounted installment loans is recognized by a method which approximates the effective interest method. Interest accruals are discontinued on certain loans when collection of principal or interest is considered doubtful, or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to operations. The adequacy of the allowance for loan losses is periodically evaluated by the Company in order to maintain the allowance at a level that, in the opinion of management, is adequate to absorb losses inherent in existing loans. Management's evaluation of the adequacy of the allowance is based on a consideration of the Company's historical loss experience, known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and/or principal, the estimated value of any underlying collateral, and an analysis of the levels and trends of delinquencies and charge-offs. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement.

Troubled Debt Restructuring

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring. The Company measures any loss on the troubled debt restructuring in accordance with the guidance concerning impaired loans set forth above. Additionally, loans modified in troubled debt restructurings are generally placed on non-accrual status at the time of restructuring. These loans are returned to accrual status after the borrower demonstrates performance with the modified terms for a sustained period of time (generally six months) and has the capacity to continue to perform in accordance with the modified terms of the restructured debt.

Certain payment deferrals may be granted under the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act") and related interagency guidance in response to financial difficulties caused by the COVID-19 pandemic. Such deferrals are not considered concessions that would lead to classification as a troubled debt restructuring. Any loan modified per the CARES Act is separately monitored, and any request for continuation of relief beyond the initial modification will be evaluated to determine if the loan should be reclassified as a troubled debt restructuring at that time. The COVID deferral relief period under the CARES Act ended effective January 1, 2022.

Loans Held for Sale

The Company has originated government guarantied loans to customers under the Small Business Administration (SBA) program. The SBA provides guaranties of 75% to 90% of each loan. For some of these loans, the Company sells the guarantied portion of the loan to a third party and retains the unguarantied portion in its own portfolio. Loans held for sale include government loans and are reported at the lower of cost or fair value. Fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains or losses on the sale of loans that are held for sale are recognized at the time of the sale, subject to the expiration of any warranty or recourse provisions, and determined by the difference between net sale proceeds and the net book value of the loans less the estimated fair value of any retained mortgage servicing rights and estimated discount recognized against the retained portion of the loan.

Servicing Assets

Periodically, the Company sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

The Company measures servicing assets initially at fair value and amortizes the servicing rights in proportion to, and over the period of, estimated net servicing revenues. Management assesses servicing rights for impairment as of each financial reporting date. Fair value adjustments that encompass market-driven valuation changes and the runoff in value that occurs from the passage of time are each separately reported. Total servicing assets included in interest receivable and other assets on the consolidated balance sheet were $141,268 and $175,611 at December 31, 2022 and 2021, respectively. The Company evaluated the servicing asset for impairment at December 31, 2022 and 2021 and determined that no valuation allowance was needed.

The Company services loans that have been participated with other financial institutions totaling $12,422,257 and $12,727,073 as of December 31, 2022 and 2021, respectively. Control over these loans was surrendered without recourse and, therefore, the sold balances are not included on the Company's consolidated balance sheets.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the rights (free of conditions that prevent it from taking advantage of that right, beyond a more than trivial benefit to the transferor) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company sells certain portions of government guarantied loans in the secondary market. These sales are recorded by the Company when control is surrendered and any warranty period or recourse provision expires. There were no warranty or recourse provisions outstanding at December 31, 2022 for loans previously sold.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line basis. The estimated lives used in determining depreciation are:

Leasehold improvements	5 years
Furniture, fixtures, and equipment	3 – 7 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Deferred income taxes have been provided for the resulting temporary differences.

Leases

The Company enters into leases in the normal course of business, primarily related to office space and Company branches. The Company's leases have remaining terms ranging from three to six years, some of which include renewal options to extend the lease for up to five years. The Company's leases do not include residual value guarantees or covenants. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's consolidated balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors for similar assets and credit quality.

Bank-Owned Life Insurance

The Bank has purchased insurance on the lives of certain current and former Bank executives. The policies accumulate asset values to meet future liabilities including payment of employee benefits such as split dollar life insurance agreements, which provide an insurance benefit to the family of the individual on whom the policy is held. The cash surrender value of policies is recorded as an asset on the consolidated balance sheets. Increases in the cash surrender value are recorded as other non-interest income in the consolidated statements of income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the year in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the year of enactment.

A valuation allowance is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

The Company had no unrecognized tax benefits at December 31, 2022 and 2021.

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

With few exceptions, the Company is no longer subject to examinations by U.S. federal taxing authorities for years ended before December 31, 2019, and by state authorities for years ended before December 31, 2018.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss). The Company's primary source of comprehensive income (loss) is unrealized gains and losses on securities available for sale. Reclassification adjustments result from gains or losses on securities that are realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose. Total comprehensive income and the components of accumulated other comprehensive income (loss) are presented in the consolidated statements of comprehensive income.

Stock-Based Compensation

The company recognizes compensation expense for awards of stock options to employees and directors based on the grant-date fair value of those awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The assumptions used in this model include an estimate of expected volatility, which is based on the historical volatility of the price of similar company stocks, and an estimate of the expected option term, which is based on consideration of the vesting period and contractual term of the option. In addition, the company estimates the number of options expected to be forfeited based on historical forfeiture rates. The risk-free interest rates are equal to the U.S. Treasury yield at the time of the grant and commensurate with the expected term of the grant. Expense is recognized over the vesting period of the options. The company's stock compensation plan and related assumptions used in determining the fair value of awards are discussed in Note 19.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expense was $441,998 and $226,958 for the years ended December 31, 2022 and 2021, respectively and included in other expenses on the consolidated statements of income.

Net Income per Share

Basic net income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. However, dilutive earnings per share amounts are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

Revenue Recognition

Service charges on deposit accounts

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

Debit and ATM interchange fee income, net

Debit and ATM interchange income represent fees earned when a debit card issued by the Company is used. The Company 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.

Merchant fee income

Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company groups assets and liabilities at fair value in a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Some fair value measurements, such as available-for-sale securities, are performed on a recurring basis, while others such as other real estate owned and impaired loans are performed on a non-recurring basis.

Recent Accounting Pronouncements and Adoption of New Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. The FASB has deferred the effective date of this ASU to fiscal years beginning on or after December 15, 2022, including interim periods within those fiscal years for public business entities. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 adoption methods varying based on transaction type. The Company has not elected to apply these amendments; however, the Company will assess the applicability of the ASU to us and continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The ASU eliminates the recognition and measurement guidance for troubled debt restructurings and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. This ASU also requires enhanced disclosure for loans that have been charged off. The ASU is effective on January 1, 2023 under a prospective approach. Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3 – CASH AND DUE FROM BANKS

Cash and due from Banks includes balances with the Federal Reserve Bank and other correspondent banks. The Federal Reserve Bank generally requires the Company to maintain a certain minimum balance at all times. The reserve requirements are based on a percentage of the Company's deposit liabilities. The reserve requirement was 0% and 0% for the years ended December 31, 2022 and 2021, respectively.

NOTE 4 – SECURITIES

The following table provides the amortized cost and estimated fair value by major categories of investment securities as of December 31, 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U. S. Treasuries	$ 143,116,988	$ -	$ (2,136,517)	$ 140,980,471
Mortgage-backed securities	28,935,808	169	(3,751,459)	25,184,518
CMOs	10,450,047	-	(1,513,373)	8,936,674
Municipals - taxable	34,306,678	11,752	(3,384,177)	30,934,253
Municipals - exempt	3,801,289	-	(295,991)	3,505,298
Total Available-for-sale securities	$ 220,610,810	$ 11,921	$ (11,081,517)	$ 209,541,214
Held-to-maturity securities:				
Subordinated debt	$ 34,500,000	$ -	$ (2,689,022)	$ 31,810,978
Total held-to-maturity securities:	$ 34,500,000	$ -	$ (2,689,022)	$ 31,810,978

The following table provides the amortized cost and estimated fair value by major categories of investment securities as of December 31, 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Mortgage-backed securities	$ 31,344,118	$ 176,135	$ (335,936)	$ 31,184,317
CMOs	12,348,224	59,526	(187,018)	12,220,732
Municipals - taxable	7,743,380	4,010	(111,150)	7,636,240
Municipals - exempt	1,950,944	20,858	(2,887)	1,968,915
Total Available-for-sale securities	$ 53,386,666	$ 260,529	$ (636,991)	$ 53,010,204
Held-to-maturity securities:				
Subordinated debt	$ 18,000,000	$ 95,099	$ (100,979)	$ 17,994,120
Total held-to-maturity securities:	$ 18,000,000	$ 95,099	$ (100,979)	$ 17,994,120

NOTE 4 – SECURITIES (CONTINUED)

The Company had no proceeds from the sales of investment securities during the years ended December 31, 2022 and 2021. There were no gross realized gains or losses during 2022 and 2021.

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

	2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities						
U. S. Treasuries	$ 140,980,472	$ (2,136,517)	$ -	$ -	$ 140,980,472	$ (2,136,517)
Mortgage-backed securities	4,622,415	(175,967)	20,525,545	(3,575,492)	25,147,960	(3,751,459)
CMOs	1,739,744	(154,690)	7,196,930	(1,358,683)	8,936,674	(1,513,373)
Municipals - taxable	21,507,312	(1,754,988)	6,092,603	(1,629,189)	27,599,915	(3,384,177)
Municipals - exempt	1,824,008	(57,697)	1,681,289	(238,294)	3,505,297	(295,991)
Total available-for-sale securities	$ 170,673,951	$ (4,279,859)	$ 35,496,367	$ (6,801,658)	$ 206,170,318	$ (11,081,517)
Held-to-maturity securities						
Subordinated debt	$ 19,485,008	$ (2,014,992)	$ 5,325,970	$ (674,030)	$ 24,810,978	$ (2,689,022)
Total held-to-maturity securities	$ 19,485,008	$ (2,014,992)	$ 5,325,970	$ (674,030)	$ 24,810,978	$ (2,689,022)

	2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale securities						
Mortgage-backed securities	$ 26,588,737	$ (335,936)	$ -	$ -	$ 26,588,737	$ (335,936)
CMOs	9,078,983	(187,018)	-	-	9,078,983	(187,018)
Municipals - taxable	7,272,231	(111,150)	-	-	7,272,231	(111,150)
Municipals - exempt	424,072	(2,887)	-	-	424,072	(2,887)
Total available-for-sale securities	$ 43,364,023	$ (636,991)	$ -	$ -	$ 43,364,023	$ (636,991)
Held-to-maturity securities						
Subordinated Debt	$ 17,994,120	$ (100,979)	$ -	$ -	$ 17,994,120	$ (100,979)
Total held-to-maturity securities	$ 17,994,120	$ (100,979)	$ -	$ -	$ 17,994,120	$ (100,979)

NOTE 4 – SECURITIES (CONTINUED)

Certain investment securities shown above currently have fair values less than amortized cost and, therefore, contain unrealized losses. The Company does not have the intent to sell the investments that are temporarily impaired, and it is more likely than not that the Company will not be required to sell those investments before recovery of the amortized cost basis. The Company has evaluated these securities and has determined that the decline in value is no other than temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

There were one hundred and fourteen and thirty-seven available-for-sale investment securities with unrealized losses at December 31, 2022 and 2021, respectively. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

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 securities	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 59,928,455	$ 59,219,533
Due after one year through five years	103,878,849	101,607,491
Due after five years through ten years	23,374,215	20,262,488
Due after ten years	33,429,291	28,451,702
	$ 220,610,810	$ 209,541,214

Held-to-maturity securities	Amortized Cost	Estimated Fair Value
Due after five years through ten years	$ 34,500,000	$ 31,810,978
	$ 34,500,000	$ 31,810,978

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans, by class, are summarized as follows:

	December 31, 2022	December 31, 2021
Commercial	$ 128,990,626	$ 170,058,856
Commercial real estate		
Non-owner occupied	327,478,131	182,309,827
Owner occupied	113,449,643	107,822,402
Construction and land	51,731,194	44,163,874
Consumer and other	37,886,349	37,708,153
	659,535,943	542,063,112
Deferred loan fees and costs, net	(1,943,717)	(2,261,710)
Allowance for loan losses	(6,889,222)	(6,280,728)
	$ 650,703,004	$ 533,520,674

The Paycheck Protection Program ("PPP") was enacted by the Small Business Administration ("SBA") in 2020 under the authorization provided by the CARES Act. PPP loans are fully-guarantied by the SBA, and, if certain conditions are met, are repaid by SBA loan forgiveness. The Bank had $666,565 and $38,631,461 of PPP loans outstanding as of December 31, 2022 and 2021, respectively. PPP loans are classified as Commercial loans in the above table and in all subsequent tables.

Salaries and employee benefits totaling $663,388 and $1,045,622 have been deferred as loan origination costs for the years ended December 31, 2022 and 2021, respectively.

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, and concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower.

The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project.

Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Consumer loans primarily consist of home equity lines of credit and loans and other personal loans. The Company originates consumer loans utilizing credit history information, debt-to-income ratio, and loan-to-value ratio analysis. The Company also evaluates the consumer's liquid assets and their ability to supplement cash flow for debt payment. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed.

This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home equity loans include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements. Personal loans are nearly evenly split between mobile home loans along with a small number of direct auto loans and installment loans. Personal unsecured loans are offered to consumers with additional underwriting procedures in place, including net worth and borrower's verified liquid assets analysis. In general, personal loans usually have a higher degree of risk than other types of loans.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The Company utilizes an independent third party loan review consultant to review and validate the credit risk program on a periodic basis. Results of these reviews are presented to management and the Company's Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

The following tables summarize the credit quality indicators related to the Company's loans, by class, as of December 31, 2022 and 2021:

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 118,938,623	$ 9,254,729	$ 797,274	$ -	$ 128,990,626
Commercial real estate					
Non-owner occupied	325,360,208	2,117,923	-	-	327,478,131
Owner occupied	113,449,643	-	-	-	113,449,643
Construction and land	51,731,194	-	-	-	51,731,194
Consumer and other	37,886,349	-	-	-	37,886,349
Total	$ 647,366,017	$ 11,372,652	$ 797,274	$ -	$ 659,535,943

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 166,467,330	$ 2,470,143	$ 1,121,383	$ -	$ 170,058,856
Commercial real estate					
Non-owner occupied	176,658,055	5,651,772	-	-	182,309,827
Owner occupied	100,094,037	7,728,365	-	-	107,822,402
Construction and land	44,163,874	-	-	-	44,163,874
Consumer and other	37,708,153	-	-	-	37,708,153
Total	$ 525,091,449	$ 15,850,280	$ 1,121,383	$ -	$ 542,063,112

As a part of the on-going monitoring of the credit quality of the Company's loan portfolio, management monitors certain credit quality indicators including trends related to risk grade classifications, concentrations, net charge-offs, non-performing loans, and general economic conditions.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The Company uses a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 9, with grades 1 to 5 being termed pass loans and grades 6, 7, 8, and 9 being termed special mention, substandard, doubtful, and loss, respectively. A description of the general characteristics of the nine grades is as follows:

Pass (grades 1-5) **–** These loans generally conform to the Company's underwriting criteria and evidence an acceptable level of credit risk.

Special Mention (grade 6) **–** These loans have weaknesses that require management's close attention. These weaknesses expose the Company to a sufficient degree of risk to warrant classification. If left uncorrected, these weaknesses will result in deterioration of the loan's repayment prospects or the borrower's credit position at a future date. Loans in this category are currently protected, but are potentially weak. The loans may (particularly in the short term) constitute a greater than average credit risk, but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. This is a temporary classification pending identification of improvement or deterioration in the criticized asset.

Substandard (grade 7) **–** Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or 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 Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

Doubtful (grade 8) **–** Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high but because of certain important and reasonably specific pending factors which may work to strengthen (or weaken) the loan, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors that may necessitate a doubtful classification include bankruptcy or liquidation procedures, capital injection, or perfecting liens on additional collateral refinancing plans. The Company considers doubtful to be a temporary classification and will only classify an asset, or portion of an asset, as such when information is not available to conclude as to classification or more clearly define the potential for loss.

Loss (grade 9) **–** Assets classified loss are considered uncollectible and of such little value that their continuance as assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are identified as uncollectible.

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Age Analysis of Past Due Loans

The age analysis of past due loans by class as of December 31, 2022 consisted of the following:

	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial	$ 33,841	$ -	$ 297,281	$ 331,122	$128,659,504	$ 128,990,626	$ -
Commercial real estate							
Non-owner occupied	-	-	-	-	327,478,131	327,478,131	-
Owner occupied	-	-	-	-	113,449,643	113,449,643	-
Construction and land	1,455,991	-	-	1,455,991	50,275,203	51,731,194	-
Consumer and other	-	-	-	-	37,886,349	37,886,349	-
Total	$ 1,489,832	$ -	$ 297,281	$ 1,787,113	$657,748,830	$ 659,535,943	$ -

The age analysis of past due loans by class as of December 31, 2021 consisted of the following:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ -	$ -	$ 26,840	$ 26,840	$170,032,016	$ 170,058,856	$ -
Commercial real estate							
Non-owner occupied	-	-	-	-	182,309,827	182,309,827	-
Owner occupied	-	-	-	-	107,822,402	107,822,402	-
Construction and land	-	-	-	-	44,163,874	44,163,874	-
Consumer and other	-	-	-	-	37,708,153	37,708,153	-
Total	$ -	$ -	$ 26,840	$ 26,840	$542,036,272	$ 542,063,112	$ -

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Information related to impaired loans by class as of December 31, 2022 and for the year then ended consisted of the following:

	Commercial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction and Land	Consumer and other	Total
Recorded investment in impaired loans:						
With no specific allowance recorded	$ 140,915	$ -	$ -	$ -	$ -	$ 140,915
With a specific allowance recorded	156,366	-	-	-	-	156,366
Total recorded investment in impaired loans	$ 297,281	$ -	$ -	$ -	$ -	$ 297,281
Unpaid principal balance of impaired loans:						
With no specific allowance recorded	$ 300,909	$ -	$ -	$ -	$ -	$ 300,909
With a specific allowance recorded	-	-	-	-	-	-
Total unpaid principal balance of impaired loans	$ 300,909	$ -	$ -	$ -	$ -	$ 300,909
Specific allowance	$ -	$ -	$ -	$ -	$ -	$ -
Average recorded investment in impaired loans during the year	$ 70,965	$ -	$ -	$ -	$ -	$ 70,965
Interest income recognized in impaired loans during the year	$ 8,448	$ -	$ -	$ -	$ -	$ 8,448

Information related to impaired loans by class as of December 31, 2021 and for the year then ended consisted of the following:

	Commercial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction and Land	Consumer and other	Total
Recorded investment in impaired loans:						
With no specific allowance recorded	$ 26,840	$ -	$ -	$ -	$ -	$ 26,840
With a specific allowance recorded	-	-	-	-	-	-
Total recorded investment in impaired loans	$ 26,840	$ -	$ -	$ -	$ -	$ 26,840
Unpaid principal balance of impaired loans:						
With no specific allowance recorded	$ 53,915	$ -	$ -	$ -	$ -	$ 53,915
With a specific allowance recorded	-	-	-	-	-	-
Total unpaid principal balance of impaired loans	$ 53,915	$ -	$ -	$ -	$ -	$ 53,915
Specific allowance	$ -	$ -	$ -	$ -	$ -	$ -
Average recorded investment in impaired loans during the year	$ 103,643	$ -	$ -	$ -	$ 228,846	$ 332,489
Interest income recognized in impaired loans during the year	$ 27,075	$ -	$ -	$ -	$ 9,287	$ 36,362

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Non-accrual loans at December 31, 2022 and 2021 consisted of the following as stated below:

	December 31, 2022	December 31, 2021
Commercial	$ 297,281	$ 26,840
Commercial real estate		
Non-owner occupied	-	-
Owner occupied	-	-
Construction and land	-	-
Consumer and other	-	-
	$ 297,281	$ 26,840

Changes in the allowance for loan losses, by class, for the year ended December 31, 2022 were as follows:

Allowance for Credit Losses and Recorded Investment in Financing Receivables
For the Year Ended December 31, 2022

	Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 1,742,735	$ 3,318,738	$ 515,525	$ 303,540	$ 400,190	$ 6,280,728
Charge-offs	(23,389)	-	-	-	-	(23,389)
Recoveries	231,883	-	-	-	-	231,883
Provision (benefit)	(395,695)	281,556	(42,306)	(85,387)	641,832	400,000
Ending balance	$ 1,555,534	$ 3,600,294	$ 473,219	$ 218,153	$ 1,042,022	$ 6,889,222
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ 156,366	$ -	$ -	$ -	$ -	$ 156,366
Loans collectively evaluated for impairment	1,399,168	3,600,294	473,219	218,153	1,042,022	6,732,856
Ending balance	$ 1,555,534	$ 3,600,294	$ 473,219	$ 218,153	$ 1,042,022	$ 6,889,222
Loans						
Individually evaluated for impairment	$ 297,281	$ -	$ -	$ -	$ -	$ 297,281
Collectively evaluated for impairment	128,693,345	440,927,774	51,731,194	37,886,349	-	659,238,662
Ending balance	$ 128,990,626	$ 440,927,774	$ 51,731,194	$ 37,886,349	$ -	$ 659,535,943

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Changes in the allowance for loan losses, by class, for the year ended December 31, 2021 were as follows:

Allowance for Credit Losses and Recorded Investment in Financing Receivables
For the Year Ended December 31, 2021

	Commercial	Commercial Real Estate	Construction and Land	Consumer and other	Unallocated	Total
Allowance for credit losses						
Beginning balance	$ 1,556,238	$ 2,800,106	$ 839,582	$ 42,004	$ 459,857	$ 5,697,787
Charge-offs	(268,304)	-	-	-	-	(268,304)
Recoveries	1,245	-	-	-	-	1,245
Provision (benefit)	453,556	518,632	(324,057)	261,536	(59,667)	850,000
Ending balance	$ 1,742,735	$ 3,318,738	$ 515,525	$ 303,540	$ 400,190	$ 6,280,728
Period-end amount allocated to:						
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	1,742,735	3,318,738	515,525	303,540	400,190	6,280,728
Ending balance	$ 1,742,735	$ 3,318,738	$ 515,525	$ 303,540	$ 400,190	$ 6,280,728
Loans						
Individually evaluated for impairment	$ 26,840	$ -	$ -	$ -	$ -	$ 26,840
Collectively evaluated for impairment	170,032,016	290,132,229	44,163,874	37,708,153	-	542,036,272
Ending balance	$ 170,058,856	$ 290,132,229	$ 44,163,874	$ 37,708,153	$ -	$ 542,063,112

NOTE 5 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table summarizes loans to customers whose loan terms were modified in troubled debt restructurings during the years ended December 31, 2022 and 2021:

	December 31, 2022		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 123,209	$ 123,209
	1	$ 123,209	$ 123,209

	December 31, 2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$ 127,121	$ 127,121
	1	$ 127,121	$ 127,121

The above loans were modified and considered troubled debt restructurings because specific interest rate concessions or payment term concessions were granted to the borrowers. The Company had no obligations to lend additional funds on the restructured loans as of December 31, 2022 and 2021.

There were no troubled debt restructurings in 2022 and 2021 that subsequently defaulted within twelve months.

Interest recognized for cash payments received on non-accrual loans was not significant for the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, there were no loans over 90 days past due that were still accruing interest.

All loans modified due to COVID-19 under the CARES Act are separately monitored, and any request for continuation of relief beyond the initial modification will be reassessed at that time to determine if a further modification should be granted and if a downgrade in risk rating is appropriate. There were no loans that were modified under the CARES Act as of December 31, 2022 and 2021, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2022	December 31, 2021
Leasehold improvements	$ 651,412	$ 651,412
Furniture, fixtures, and equipment	1,952,512	1,829,094
	2,603,924	2,480,506
Less accumulated depreciation and amortization	(1,558,413)	(1,188,266)
	$ 1,045,511	$ 1,292,240

Depreciation and amortization included in occupancy and equipment expense totaled $370,147 and $376,327 for the years ended December 31, 2022 and 2021, respectively.

NOTE 7 – LEASES

The Company leases certain facilities where it conducts its operations on a month-to-month basis. The Company has entered into term leases for its Danville, San Mateo, and Oakland locations. The Company is responsible for common area maintenance, taxes, and insurance to the extent these exceed the base year amounts. The leases expire between February 2023 and November 2026.

Right-of-use assets and lease liabilities are $848,506 and $824,208, respectively, as of December 31, 2022 and $1,466,088 and $1,471,509, respectively, as of December 31, 2021. The leases are considered operating leases and are included in interest receivable and other assets and interest payable and other liabilities on the consolidated balance sheet. The Company had no finance leases or short-term leases as of December 31, 2022 and 2021.

The right-of-use asset represents our right to use an underlying asset during the lease term. Operating lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized based on the present value of the remaining lease payments using a discount rate that represents our incremental borrowing rate at the date of implementation of the new accounting standard.

Our operating leases have one 5-year extension option at the then fair market value. As these extension options are not reasonably certain of exercise, they are not included in the lease term.

The minimum rental payments shown below are given for the existing lease obligations and are not a forecast of future rental expense. The Company recognized rent expense of $682,270 and $627,154 for the years ended December 31, 2022 and 2021, respectively. Rent expense is included in occupancy and equipment expense on the consolidated statements of income.

NOTE 7 – LEASES (CONTINUED)

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

	Payments
2023	$ 623,429
2024	265,363
2025	122,605
2026	114,446
Total undiscounted lease payments	1,125,843
Less: imputed interest	(301,635)
Net lease liabilities	$ 824,208

Additional information regarding our operating leases is summarized below for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities for operating leases	$ 644,837
Right-of-use assets obtained in exchange for lease liabilities	$ 848,506
Weighted average remaining lease term in months	21
Weighted average discount rate	2.58%

NOTE 8 – INTEREST RECEIVABLE AND OTHER ASSETS

Interest receivable and other assets are as follows:

	December 31,	
	2022	2021
Income tax asset, net	$ 5,916,447	$ 2,249,485
Interest receivable -- securities	1,550,949	287,254
Interest and fees receivable -- loans	2,054,109	1,591,748
Prepaid expenses and other assets	2,328,144	2,628,596
FHLB Stock	3,279,500	2,292,700
	$ 15,129,149	$ 9,049,783

NOTE 9 – DEPOSITS

Customer deposits consisted of the following:

	December 31, 2022	December 31, 2021
Demand	$ 203,013,091	$ 237,541,424
NOW accounts	67,881,689	60,839,574
Money market	277,540,398	220,306,972
Savings	9,859,195	14,253,976
Time, under $250,000	70,589,441	43,885,064
Time, $250,000 or more	77,023,467	33,407,366
	$ 705,907,281	$ 610,234,376

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2023	$ 92,813,864
2024	14,279,422
2025	12,846,978
2026	7,515,645
2027	20,156,999
	$ 147,612,908

Interest expense related to interest-bearing deposits consisted of the following:

	Years Ended December 31, 2022	Years Ended December 31, 2021
NOW accounts	$ 148,208	$ 75,590
Money market	2,046,928	508,978
Savings	21,427	20,970
Time	1,802,410	574,798
	$ 4,018,973	$ 1,180,336

NOTE 10 – FHLB ADVANCES AND LINES OF CREDIT

FHLB Advances

During 2006, the Company entered into an arrangement with the FHLB under which it may borrow, on either a short-term or long-term basis, up to 25% of its assets provided that adequate collateral has been pledged. There was $136,831,110 and $0 of borrowing capacity available related to pledged investment securities at December 31, 2022 and 2021, respectively. Loans with an unpaid principal balance of $165,754,862 and $128,571,371 were pledged at December 31, 2022 and 2021, respectively. Collateralized borrowing capacity at the FHLB was $252,558,202 and $104,293,667 as of December 31, 2022 and 2021, respectively.

The Company utilized $53,000,000 and $45,000,000 of its collateralized borrowing capacity for Letters of Credit at December 31, 2022 and 2021, respectively, and had $74,500,000 and $33,500,000 outstanding borrowings from the FHLB as of December 31, 2022 and 2021, respectively. Net remaining borrowing capacity at the FHLB was $125,058,202 and $25,793,667 as of December 31, 2022 and 2021, respectively.

Annual maturities and interest rates of FHLB advances are as follows:

Years Ending December 31,	Rate (%)	Current Par ($)
2023	4.1524	64,500,000
2024	2.0700	10,000,000
		$ 74,500,000

Lines of Credit

The Company has three unsecured available lines of credit totaling $39,000,000 with three of its correspondent banks. There were no borrowings outstanding under these arrangements at December 31, 2022 and 2021, respectively.

NOTE 11 – INCOME TAXES

Income tax expense for the years ended December 31, 2022 and 2021, consists of the following:

	2022	2021
Current		
Federal	$ 2,511,886	$ 2,443,742
State	1,395,029	1,329,620
	3,906,915	3,773,362
Deferred		
Federal	(370,248)	(460,268)
State	(155,131)	(181,291)
	(525,379)	(641,559)
Income tax expense	$ 3,381,536	$ 3,131,803

Reconciliation of the provision for income tax expense based on the federal statutory income tax rate to actual income tax expense is provided as follows:

	2022		2021	
	Amount	Percent	Amount	Percent
Tax at statutory rate	$ 2,403,005	21%	$ 2,214,495	21%
State income tax	979,519	9%	915,117	9%
Bank owned life insurance	(43,218)	0%	(50,799)	0%
Equity compensation	(93,307)	-1%	55,584	1%
Other	135,537	1%	(2,594)	0%
	$ 3,381,536	30%	$ 3,131,803	31%

NOTE 11 – INCOME TAXES (CONTINUED)

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

	2022	2021
Deferred tax assets		
Net operating loss carryforwards	$ 30,047	$ 26,504
Allowance for loan losses	2,028,166	1,805,385
Right-to-use lease liability	243,665	435,031
Unrealized losses on available-for-sale investment securities	3,265,531	111,295
Nonaccrual loan interest	20,002	8,003
Stock based compensation	333,169	305,312
State income tax	247,239	229,970
Other	643,353	396,640
Total deferred tax assets	6,811,172	3,318,140
Deferred tax liabilities		
Depreciation on premises and equipment	(226,226)	(288,100)
Deferred loan costs	(320,620)	(345,279)
Right-to-use lease asset	(250,849)	(433,428)
Other	(97,030)	(14,499)
	(894,725)	(1,081,306)
Net deferred income tax asset	$ 5,916,447	$ 2,236,834

The Company files a consolidated tax return in the U.S. federal tax jurisdiction and a combined report in the state of California tax jurisdiction.

The tax benefit of net operating losses ("NOL"), temporary differences, and credit carryforwards are recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. During the years ended December 31, 2022 and 2021, the valuation allowance remained at $0.

The Company has usable net operating loss carryforwards of approximately $143,082 for federal tax purposes that begin to expire in 2022. The Tax Reform Act of 1986 and the California Conformity Act of 1987 imposes substantial restrictions on the utilization of net operating loss carryforwards when an "ownership change," as defined in the Internal Revenue Code, has occurred. Some of the Company's federal and state net operating losses have each been limited to usage of approximately $71,500 annually due to ownership changes.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, makes loans to and received deposits from its directors, officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company.

The Company's related party loans are summarized below:

	December 31,	
	2022	2021
Aggregate amount outstanding, beginning of year	$ 3,307,620	$ 2,846,261
New loans, advances, or additions during year	750,000	2,306,152
Repayments during year	(3,949,192)	(1,844,793)
Aggregate amount outstanding, end of year	$ 108,428	$ 3,307,620
Unused loan commitments	$ 1,400,000	$ 1,660,847

Related party deposits amounted to $14,131,316 and $15,270,224 as of December 31, 2022 and 2021, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk

The Company 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 customers 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 in the balance sheets.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for 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 and standby letters of credit as it does for loans included on the balance sheets.

At December 31, 2022 and 2021, the Company had commitments to extend credit of $150,809,753 and $142,357,273, respectively. There were no standby letters of credit issued at December 31, 2022 and 2021, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance or financial obligation of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Contingencies

The Company is subject to legal proceedings and claims that 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 position or results of operations of the Company.

NOTE 14 – NON-INTEREST INCOME AND REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income. Revenues that fall within the scope of ASC 606 include service charges and fee income and revenue from various sources included in other income. Certain non-interest income streams such as government grants and fees associated with SBA servicing rights are not within the scope of the new guidance.

The Company earns fees from its deposit customers for account maintenance, transaction-based activity, and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs, and the fees are recognized at the time each specific service is provided to the customer. Premiums on the sale of loans are recognized when the loan is sold, and performance obligation is complete. Other income includes income from various sources and is recognized when the performance obligation is complete.

Non-interest income consisted of the following for the years ended December 31:

	2022	2021
Government grants	$ 170,699	$ 1,826,265
Change in cash surrender value of BOLI	205,802	241,899
Service charges	211,914	161,400
FHLB dividend	166,647	120,658
Loan document and packaging fees	130,800	113,225
SBA servicing income	43,060	49,637
Other	150,439	98,440
Total non-interest income	$ 1,079,361	$ 2,611,524

NOTE 15 – GOVERNMENT GRANTS

The Company was awarded $170,699 and $1,826,265 in 2022 and 2021, respectively, by the United States Treasury Department in recognition of its community development activities under the Bank Enterprise Award ("BEA") and Community Development Financial Institutions Rapid Response ("RRP") Programs. Management believes that the Company has complied, in all material aspects, with all of the covenants and requirements under the BEA and RRP agreements and that it is not, and has not been, in default with any of the terms, requirements, or minimum levels of qualified activities of such agreements.

NOTE 16 – OTHER EXPENSES

Other expenses consisted of the following for the years ended December 31:

	2022	2021
Data processing	$ 2,332,073	$ 1,873,911
Professional fees	810,984	565,363
Advertising	441,998	226,958
Regulatory assessments	311,837	491,834
Loan related expenses	289,424	288,684
Donations	194,485	98,174
Title company deposit expenses	162,500	178,170
Insurance	145,593	108,351
Other operating expenses	973,876	740,610
Total other expenses	$ 5,662,770	$ 4,572,055

NOTE 17 – EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Company adopted a 401(k) defined contribution plan effective January 1, 1997. All employees of the Company may participate in the plan upon completion of certain eligibility requirements. The Company matches employee's contributions on a discretionary basis. The Company made contributions of $273,415 and $263,216 for the years ended December 31, 2022 and 2021, respectively.

NOTE 18 – OTHER POST-RETIREMENT BENEFIT PLANS

During 2019, the Bank established a non-qualified deferred compensation plan for directors and certain officers of the Bank. Participants in the non-qualified deferred compensation plan may elect to defer a portion of their compensation to future periods. Participants in the non-qualified plan are fully vested in contributions made and any earnings generated as a result of their contributions. At December 31, 2022 and 2021, the participants in the non-qualified plan have deferred $167,885 and $95,205, respectively.

During 2020, the Bank awarded an executive officer a salary continuation plan. Under the plan, the participant will be provided with a fixed annual retirement benefit for 10 years after retirement. The Bank is also responsible for certain pre-retirement death benefits under the plan. The participant vests in the benefit over a ten year period, with no vesting occurring until the completion of the fifth year of the plan. As of December 31, 2022 and 2021, a salary continuation liability of $206,141 and $150,289, respectively, had been accrued by the Bank. The salary continuation liability is reflected in interest payable and other liabilities on the Company's consolidated balance sheet. Expense recognized under these plans totaled $55,852 and $52,869 for the years ended December 31, 2022 and 2021, respectively.

NOTE 18 – OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

In conjunction with the salary continuation plan, the Bank has purchased various life insurance policies of which the Bank is the owner and beneficiary. The policies are designed to offset the Bank's obligations associated with the salary continuation plan. However, the cash surrender values of the various life insurance policies represent assets of the Bank and the Bank's obligations may be satisfied using the general assets of the Bank.

NOTE 19 – SHAREHOLDERS' EQUITY

Dividend Restrictions

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code provides that, unless the Company receives prior approval from the California Commissioner of Financial Institutions, the total amount of dividend payments a California state-chartered Company can make in any calendar year cannot exceed the lesser of: (1) the Company's retained earnings or (2) the Company's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period.

Cash dividends paid to shareholders were $1,531,439 and $1,059,020 in 2022 and 2021, respectively.

Share Repurchases

During 2022, the Company repurchased 284,000 shares of Series A Voting Common Stock at an average purchase price of $8.09 per share in privately-negotiated transactions with two investors.

Earnings per Share

Earnings per share ("EPS") is calculated based on the weighted average common shares outstanding during the period. Basic EPS excludes dilution and is calculated by dividing net income available to common shareholders by the weighted average common shares outstanding. 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.

	Year Ended December 31, 2022		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 8,061,347	8,772,170	$ 0.92
Effect of dilutive securities:			
Stock options		255,474	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 8,061,347	9,027,644	$ 0.89

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

	Year Ended December 31, 2021		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS:			
Net income available to common shareholders	$ 7,413,410	8,816,287	$ 0.84
Effect of dilutive securities:			
Stock options		259,837	
Diluted EPS:			
Net income available to common shareholders plus assumed conversions	$ 7,413,410	9,076,124	$ 0.82

Stock Option Plan

The Community Bank of the Bay 2012 Stock Option Plan expired during 2022, and no grants were made under that plan for the year ended December 31, 2022.

During 2022, the Board of Directors and shareholders approved the adoption of the Bay Community Bancorp 2022 Stock Option Plan. The plan includes both non-statutory stock options, which may be granted to directors, employees, and consultants, and incentive stock options, which may be granted to employees. The price of non-statutory and incentive stock options may not be less than 100%, respectively, of the fair market value of the common stock on the date of the grant.

However, if an individual at the time of the grant owns stock representing more than 10% of the voting rights of all classes of the stock, then the price of the stock options may not be less than 110% of the fair market value of the common stock on the date of the grant. The term of stock options is determined by the Board of Directors, but may not exceed ten years from the date of the grant unless, in the case of an incentive stock option, an individual at the time of grant owns stock representing more than 10% of the voting rights of all classes of the stock, then the maximum term is five years. Shares of the Company's common stock reserved under the plans amounted to 1,544,260 and 959,489 as of December 31, 2022 and 2021, respectively.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model.

The following weighted-average assumptions were used for grants in 2022: dividend yield of 2.12%; expected volatility of 30.14%; risk-free interest rate of 3.69%; and expected options term of ten years.

The following weighted-average assumptions were used for grants in 2021: no expected dividends; expected volatility of 34.64%; risk-free interest rate of 1.58%; and expected options terms of ten years.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2022:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	914,958	$ 5.40
Granted	37,500	$ 8.50
Exercised	(140,000)	$ 3.00
Forfeited / canceled / expired	(85,750)	$ 3.48
Outstanding at end of period	726,708	$ 6.24

The following table summarizes information about stock options outstanding at December 31, 2021:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	988,263	$ 5.00
Granted	83,000	$ 7.81
Exercised	(82,422)	$ 3.85
Forfeited / canceled / expired	(73,883)	$ 4.51
Outstanding at end of period	914,958	$ 5.40

The Company recognized $332,021 and $417,009 in stock option expense for the years ended December 31, 2022 and 2021, respectively. There is approximately $370,389 and $532,573 in unrecognized compensation cost remaining as of December 31, 2022 and 2021, respectively, which is expected to be recognized over a weighted-average period of 3.16 years and 3.02 years, respectively.

The Company had 321,542 and 393,792 incentive stock options and 405,166 and 521,166 non-statutory stock options outstanding as of December 31, 2022 and 2021, respectively.

NOTE 19 – SHAREHOLDERS' EQUITY (CONTINUED)

A summary of options outstanding follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Weighted-average fair value of options granted during the year	$ 2.86	$ 3.61
Intrinsic value of options exercised	$ 869,850	$ 293,822
Options exercisable at year end	586,664	728,997
Weighted-average exercise price	$ 5.85	$ 4.88
Intrinsic value	$ 1,845,356	$ 1,780,706
Weighted-average remaining contractual life	4.36 Years	3.84 Years
Options outstanding at year end	726,708	914,958
Weighted-average exercise price	$ 6.24	$ 5.40
Intrinsic value	$ 2,003,372	$ 1,806,666
Weighted-average remaining contractual life	5.12 Years	4.71 Years

NOTE 20 – REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state 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 Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for Prompt Corrective Action (PCA), the Company and 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 classifications 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 Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1, 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. Management believes that the Company and the Bank met all capital adequacy requirements to which it is subject as of December 31, 2022 and 2021.

Effective January 1, 2020, the federal banking agencies jointly issued a final rule on the Community Bank Leverage Ratio ("CBLR"), which provides for an optional, simplified measure of capital adequacy for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"). Qualifying community banking organizations are defined as having less than $10 billion in total consolidated assets and that meet the following risk-based qualifying criteria: a CBLR of greater than nine (9) percent; off-balance sheet exposure of twenty-five (25) percent or less of total consolidated assets; and not an advanced-approaches institution. Such a community banking organization would not be subject to other risk-based and leverage capital requirements (including the Basel III and Basel IV requirements), and would be considered to have met the "well-capitalized" ratio requirements. The CBLR is determined by dividing a financial institution's tangible equity capital by its average total consolidated assets. The rule further describes what is included in tangible equity capital and average total consolidated assets. Qualifying banks may opt into and out of the CBLR framework at any time. While the Company is a qualifying community banking organization, it has not opted into the CBLR framework at this time.

To be categorized as well-capitalized, banks must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. The Company's and the Bank's actual capital amounts and ratios are presented in the table below:

NOTE 20 – REGULATORY MATTERS (CONTINUED)

	Actual		For Capital Adequacy Purposes		To be well Capitalized under PCA	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022:						
Company						
Tier 1 capital (to risk-weighted assets)	$ 192,509,000	25.34%	$ 45,584,880	≥ 6.0%	N / A	N / A
Common equity Tier 1 (to risk-weighted assets)	$ 73,096,000	9.62%	$ 34,188,660	≥ 4.5%	N / A	N / A
Total risk-based capital (to risk-weighted assets)	$ 199,561,000	26.27%	$ 60,779,840	≥ 8.0%	N / A	N / A
Tier 1 capital (to average assets)	$ 192,509,000	19.38%	$ 39,727,000	≥ 4.0%	N / A	N / A
December 31, 2022:						
Bank						
Tier 1 capital (to risk-weighted assets)	$ 191,272,000	25.18%	$ 45,584,880	≥ 6.0%	$ 60,779,840	≥ 8.0%
Common equity Tier 1 (to risk-weighted assets)	$ 71,859,000	9.46%	$ 34,188,660	≥ 4.5%	$ 49,383,620	≥ 6.5%
Total risk-based capital (to risk-weighted assets)	$ 198,324,000	26.10%	$ 60,779,840	≥ 8.0%	$ 75,974,800	≥ 10.0%
Tier 1 capital (to average assets)	$ 191,272,000	19.26%	$ 39,727,000	≥ 4.0%	$ 49,658,750	≥ 5.0%
December 31, 2021:						
Company						
Tier 1 capital (to risk-weighted assets)	$ 68,122,000	12.34%	$ 33,117,600	≥ 6.0%	N / A	N / A
Common equity Tier 1 (to risk-weighted assets)	$ 68,122,000	12.34%	$ 24,838,200	≥ 4.5%	N / A	N / A
Total risk-based capital (to risk-weighted assets)	$ 74,564,000	13.51%	$ 44,156,800	≥ 8.0%	N / A	N / A
Tier 1 capital (to average assets)	$ 68,122,000	9.19%	$ 29,643,600	≥ 4.0%	N / A	N / A
December 31, 2021:						
Bank						
Tier 1 capital (to risk-weighted assets)	$ 67,806,000	12.28%	$ 33,117,600	≥ 6.0%	$ 44,156,800	≥ 8.0%
Common equity Tier 1 (to risk-weighted assets)	$ 67,806,000	12.28%	$ 24,838,200	≥ 4.5%	$ 35,877,400	≥ 6.5%
Total risk-based capital (to risk-weighted assets)	$ 74,248,000	13.45%	$ 44,156,800	≥ 8.0%	$ 55,196,000	≥ 10.0%
Tier 1 capital (to average assets)	$ 67,806,000	9.15%	$ 29,643,600	≥ 4.0%	$ 37,054,500	≥ 5.0%

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are management's estimates of the values at which instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates.

The estimated fair values of the Company's financial instruments as of December 31 are approximately as follows:

		2022		2021	
	Fair Value Hierarchy	Carrying Amounts	Estimated Fair Values	Carrying Amounts	Estimated Fair Values
Financial assets:					
Cash and cash equivalents	Level 1	$ 39,988,762	$ 39,988,762	$ 81,942,531	$ 81,942,531
Interest bearing deposits in banks	Level 2	11,165,350	11,073,427	11,159,738	11,218,469
Securities					
Available-for-sale	Level 2	209,541,214	209,541,214	53,010,204	53,010,204
Held to maturity	Level 3	34,500,000	31,810,978	18,000,000	17,994,120
FHLB stock	Level 2	3,279,500	3,279,500	2,292,700	2,292,700
Loans, net	Level 3	650,703,004	626,238,979	533,520,674	530,526,090
Interest receivable	Level 2	3,605,058	3,605,058	1,879,002	1,879,002
Financial liabilities:					
Non-maturity deposits	Level 2	558,294,373	558,294,373	532,941,946	532,941,946
Time deposits	Level 2	147,612,908	150,850,825	77,292,430	78,430,122
Secured borrowings	Level 2	74,500,000	75,035,939	33,500,000	33,755,000
Interest payable	Level 2	356,023	356,023	101,176	101,176
Off-balance-sheet liabilities:					
Undisbursed loan commitments	Level 3	1,508,098	1,099,543	1,423,573	1,037,917

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021. These tables indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Description of Assets	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U. S. Treasuries	$ 140,980,471	$ -	$ 140,980,471	$ -
Mortgage-backed securities	25,184,518	-	25,184,518	-
CMOs	8,936,674	-	8,936,674	-
Municipals - taxable	30,934,253	-	30,934,253	-
Municipals - exempt	3,505,298	-	3,505,298	-
Total	$ 209,541,214	$ -	$ 209,541,214	$ -

Description of Assets	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
Mortgage-backed securities	$ 31,184,317	$ -	$ 31,184,317	$ -
CMOs	12,220,732	-	12,220,732	-
Municipals - taxable	7,636,240	-	7,636,240	-
Municipals - exempt	1,968,915	-	1,968,915	-
Total	$ 53,010,204	$ -	$ 53,010,204	$ -

Transfers between levels in the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds to the Company's quarterly valuation process.

Fair value measurements for impaired loans are based on either collateral values supported by appraisals or observed market prices. Any loss recognized on impaired loans is not recorded directly as an adjustment to current earnings but rather as an adjustment component in determining the overall adequacy of the allowance for loan losses. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents

For short-term instruments, including cash and due from banks, the carrying amount is a reasonable estimate of fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest-Bearing Deposits in Banks

Represents time deposits held at other financial institutions. The fair values are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities.

Securities

Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as a matrix or model pricing, when market quotes are not readily accessible or available.

FHLB Stock

For FHLB stock the carrying amount is a reasonable estimate of fair value.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of interest receivable approximates its fair value. The Company's allowance for loan and lease losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for the quality of certain loans in the portfolio.

Interest Receivable and Payable

For interest receivable and payable, the carrying amount is estimated to be the fair value.

Impaired Loans

The Company utilizes current appraisals and applies discount factors estimated and modeled for consistency by management to arrive at the estimate of fair value for all collateral dependent loans.

Deposit Liabilities

The fair values disclosed for non-maturity deposits (e.g., interest and non-interest checking, statement savings, and money market accounts) are, by definition, equal to the amount payable at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of interest payable approximates its fair value.

NOTE 21 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FHLB Borrowings

The fair value of the borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and other 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 Company's entire holdings of a particular financial instrument.

NOTE 22 – EMERGENCY CAPITAL INVESTMENT PROGRAM

On December 14, 2021, the U.S. Department of the Treasury ("Treasury") announced the deployment of approximately $9 billion in investments through the Emergency Capital Investment Program ("ECIP") to increase lending to small and minority-owned businesses and low-and moderate-income consumers in underserved communities. ECIP enables the Treasury to make direct investments in banks, credit unions, and holding companies that are designated as a Community Development Financial Institution ("CDFI") or a Minority Depository Institution ("MDI").

The Company's wholly-owned subsidiary, Community Bank of the Bay, is a CDFI, was offered an ECIP investment by the Treasury. On June 7, 2022, the Company completed a $119.4 million investment from the US Treasury Department. The Company's $119.4 million investment from the US Treasury Department was in the form of a non-cumulative Senior Perpetual Preferred Stock. For the first two years from the date of issuance of the Senior Perpetual Preferred Stock the dividend rate shall be zero percent (0%) per annum, and thereafter dividend payments begin accruing with a maximum dividend rate of two percent (2%) and the dividend rate may be reduced to one half percent (0.5%) based on the level of increased qualified lending undertaken by the Bank.

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

The following are the condensed financial statements of Bay Community Bancorp and should be read in conjunction with the consolidated financial statements.

BAY COMMUNITY BANCORP – (PARENT ONLY)
BALANCE SHEETS

ASSETS

	2022	2021
ASSETS:		
Cash and cash equivalents	$ 946,151	$ 213,808.00
Investment in bank subsidiary	64,195,784	67,716,776
Interest receivable and other assets	293,681	104,985
Total assets	$ 65,435,616	$ 68,035,569

LIABILITIES AND SHAREHOLDER'S EQUITY

	2022	2021
LIABILITIES:		
Accounts Payable	$ 2,712	$ 2,712
Total liabilities	2,712	2,712
SHAREHOLDER'S EQUITY	65,432,904	68,032,857
Total liabilities and shareholder's equity	$ 65,435,616	$ 68,035,569

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

BAY COMMUNITY BANCORP – (PARENT ONLY)
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31	
	2022	2021
INCOME:		
Dividend income from subsidiary	$ 4,600,000	$ 1,227,089
Total income	4,600,000	$ 1,227,089
EXPENSE:		
General and administrative	789,433	467,335
Income before income taxes and equity in undistributed income of subsidiary	3,810,567	759,754
Income tax benefit	188,696	59,836
Equity in net earnings of subsidiary	4,062,084	6,593,820
NET INCOME	$ 8,061,347	$ 7,413,410
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Change in unrealized losses on investment in subsidiary	$ (10,693,134)	$ (376,462)
Income tax benefit	3,153,877	111,653
Other comprehensive loss, net of tax	(7,539,257)	(264,809)
TOTAL COMPREHENSIVE INCOME	$ 522,090	$ 7,148,601

NOTE 23 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS (CONTINUED)

BAY COMMUNITY BANCORP – (PARENT ONLY)
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,061,347	$ 7,413,410
Adjustments to reconcile net earnings to cash from operating activities:		
Equity in income of subsidiary	(4,062,084)	(6,593,820)
Stock option expense	332,021	417,009
Net change in other assets and liabilities	(188,697)	(137,403)
Net cash provided by operating activities	4,142,587	1,099,196
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(1,531,439)	(1,059,020)
Proceeds from exercise of options	418,595	173,632
Cash paid to repurchase stock	(2,297,400)	-
Net cash (used in) provided by financing activities	(3,410,244)	(885,388)
NET INCREASE IN CASH AND CASH EQUIVALENTS	732,343	213,808
CASH AND CASH EQUIVALENTS, beginning of year	213,808	-
CASH AND CASH EQUIVALENTS, end of year	$ 946,151	$ 213,808

NOTE 24 – SUBSEQUENT EVENTS

On March 12, 2023, in response to the closure of California’s Silicon Valley Bank, the Federal Reserve announced the establishment of the Bank Term Funding Program (“BTFP”). This program provides additional funding to eligible depository institutions to ensure that banks can meet the needs of all depositors. The BTFP offers one-year loans to banks pledging investment securities or other qualifying assets as collateral. At the present time, the Company does not anticipate requiring these loans, but they are available to the Company if needed.

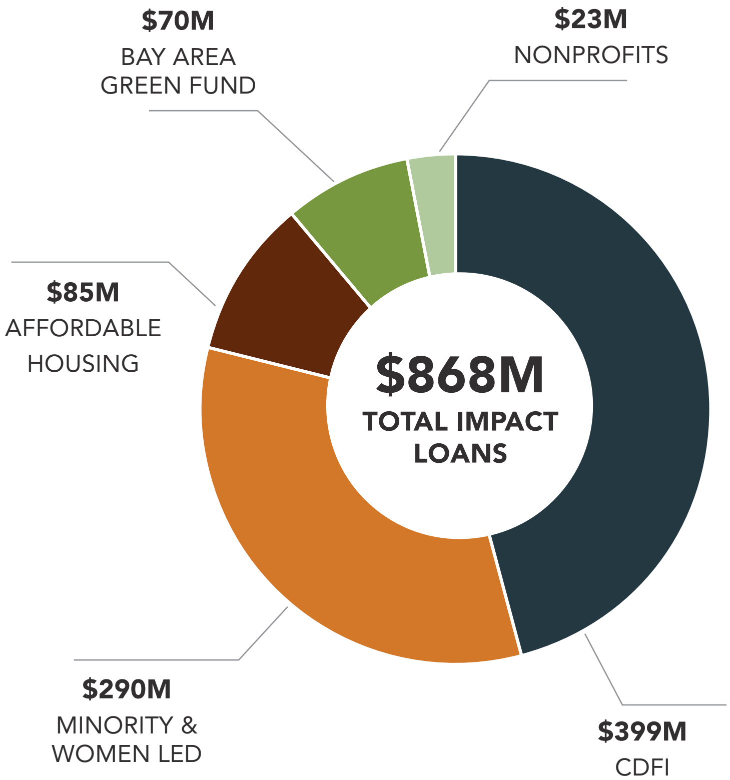
The Company has evaluated the effects of subsequent events that have occurred after the period ending December 31, 2022 and through March 31, 2023, which is the date the consolidated financial statements were available to be issued.

IMPACT LENDING

As California's first certified FDIC-insured Community Development Fincial Institution, Community Bank of the Bay makes a positive and sustainable economic impact on the community as a committed and resourceful financial partner to local businesses. In fact, 87% of all loans are mission-driven and support nonprofit, affordable housing, low-to-moderate income communities and environmental organizations.

PARTNERSHIPS MADE POSSIBLE

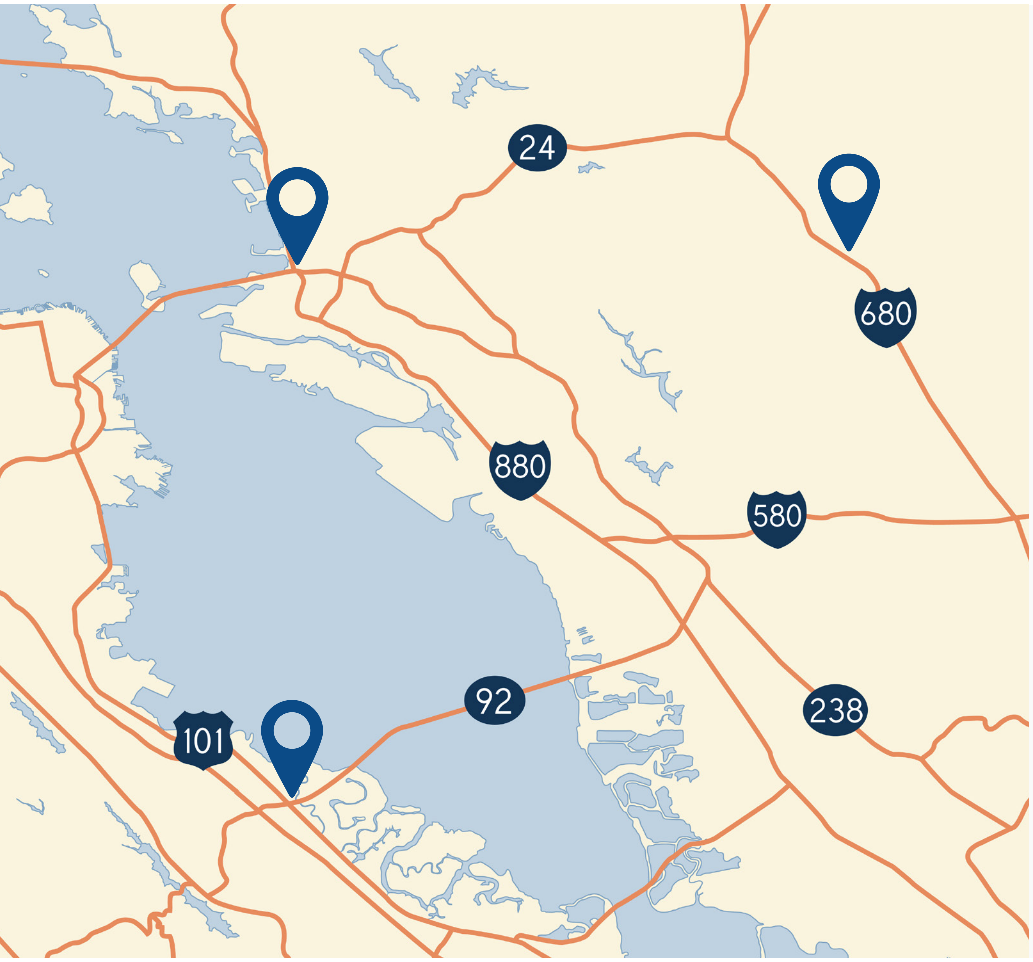
We're passionate about partnering with organizations focusing on sustainable real estate development, like Lao Family Community Development (LFCD). CBB and LFCD were recognized with the San Francisco Business Times' 2022 Real Estate Deals of the Year Community Impact Award (pictured below). Strengthened by a $119.4M capital infusion from the US Treasury's Emergency Capital Investment Program, CBB provided a loan and mezzanine financing to support the nonprofit's acquisition of a property that they transformed into a residential campus with wraparound housing and social services. Properties and services like this, allow LFCD to move 4,000 people from homelessness into permanent housing in their first six months.



*Some loans reported in multiple categories.

BAY COMMUNITY BANCORP

180 Grand Ave., Suite 1550
Oakland, CA 94612
p: 510-433-5400



BANK LOCATIONS

OAKLAND LOCATION
180 Grand Ave., Suite 120
Oakland, CA 94612
(510) 433-5400

DANVILLE LOCATION
740 Camino Ramon
Danville, CA 94526
(925) 838-2902

SAN MATEO LOCATION
155 Bovet Rd., Suite 150
San Mateo, CA 94402
(650) 389-1010

“

As SilMan Industries expands on a national scale, our banking needs have become increasingly complex, and we require a savvy banking partner to support our growing team. The bank’s commitment to personal service mirrors our own values and makes Community Bank of the Bay a valued partner.”

ABHINESH JIT, SILMAN INDUSTRIES

“

I’m really impressed with Community Bank of the Bay throughout this whole transaction. I’m so excited to tell other people about this deal. In fact, I’ve already introduced four or five different people to CBB because I’m a real-life example of a deal that went right.”

KATHY CHAO ROTHBERG, LAO FAMILY COMMUNITY DEVELOPMENT, MADE POSSIBLE BY ECIP CAPITAL