River City Bank

2023

ANNUAL REPORT

BOARD OF DIRECTORS

SHAWN DEVLIN
Director since 2001
Chairman of the Board,
River City Bank

STEPHEN FLEMING
Director since 2008
President and Chief Executive Officer,
River City Bank

PAUL DUNCAN
Director since 2021
Retired Bank Executive

FREDERICK DURST
Director since 2008
Farmer/Rancher

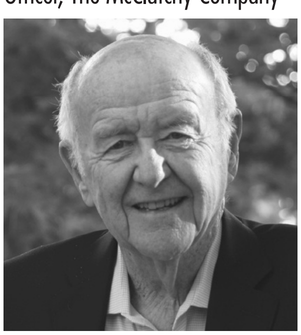
RYAN GILBERT
Director since 2012
Founder and General Partner,
Launchpad Capital

KERRY GORDON
Director since 2018
Retired Regional Managing
Partner, Moss Adams

ELAINE LINTECUM
Director since 2016
Vice President, Finance and Chief Financial
Officer, The McClatchy Company

MICHAEL J. NEWELL
Director since 2000
President, CC&B Holdings and Director
of Business Development, HP Hood LLC

GARY ORR
Director since 2019
Owner, Orr Business Consulting
Retired Bank Executive



JON S. KELLY
IN MEMORIAM
Founder and former Chairman of the Board, River City Bank

CONSOLIDATED FINANCIAL HIGHLIGHTS – UNAUDITED

(Dollars in thousands except for per share amounts)

	2023	2022	2021
For the Year:			
Net income	$ 60,337	$ 47,823	$ 44,475
Earnings per common share – Basic	40.49	32.22	30.14
Earnings per common share – Diluted	40.49	32.22	30.14
At Year End:			
Total assets	$ 4,932,029	$ 4,041,345	$ 3,656,715
Total deposits	4,320,677	3,442,317	3,326,026
Total gross loans	3,686,365	3,239,047	2,735,197
Total investments	674,374	629,146	711,699
Total shareholders' equity	417,730	353,014	308,355
Book value per share	287.53	241.33	212.26
Common shares outstanding	1,452,807	1,462,766	1,452,711
Selected Financial Ratios:			
Net interest margin (TE)	2.74%	2.68%	2.61%
Net recoveries to total gross loans	0.00%	(0.02%)	(0.01%)
Allowance for credit losses to total gross loans	2.61%	2.59%	2.38%
Allowance for credit losses to non-performing loans	NM	NM	NM
Return on average shareholders' equity	15.65%	14.56%	15.34%
Return on average assets	1.34%	1.26%	1.27%
Efficiency ratio (TE)	26.56%	26.39%	28.09%

The accompanying 2023 consolidated financial statements of River City Bank are furnished to its shareholders and customers pursuant to the requirements of the FDIC to provide an annual disclosure statement. The aforementioned consolidated financial statements have not been reviewed or confirmed for accuracy or relevance by the FDIC.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
River City Bank
Sacramento, California

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of River City Bank, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of River City Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, River City Bank's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated January 26, 2024 expressed an unmodified opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, River City Bank changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). Our opinion is not modified with respect to this matter.

Basis of 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 River City Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

(continued)

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of Management for the Financial Statements (continued)
In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about River City Bank's ability to continue as a going concern for one year from the date the consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about River City Bank'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.

Crowe LLP

Crowe LLP
Sacramento, California
January 26, 2024

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from financial institutions	$ 549,033	$ 146,591
Debt securities, available-for-sale	663,142	619,736
Equity securities	11,232	9,410
Loans, net of allowance of $96,051 and $84,013 as of December 31, 2023 and 2022, respectively	3,501,526	3,043,841
Accrued interest receivable	16,669	12,063
Premises and equipment, net	11,018	11,901
Other assets	41,854	37,591
Derivatives	112,357	134,605
Deferred tax assets, net	25,198	25,607
Total assets	$ 4,932,029	$ 4,041,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand deposits	$ 839,635	$ 877,128
Interest-bearing deposits		
Money market accounts	1,047,447	979,427
NOW accounts	1,439,399	1,073,377
Savings deposits	121,606	211,003
Time deposits	872,590	301,382
Total interest-bearing deposits	3,481,042	2,565,189
Total deposits	4,320,677	3,442,317
Accrued interest payable	7,161	994
Other borrowings	50,000	100,000
Cash collateral held related to derivatives	114,940	127,760
Other liabilities	21,521	17,260
Total liabilities	4,514,299	3,688,331
Commitments and contingencies		
Shareholders' equity		
Preferred stock, par value of $0.01; 40,000,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value of $0.01; 40,000,000 shares authorized, 1,452,807 and 1,462,766 shares issued and outstanding at December 31, 2023 and 2022, respectively	37,275	40,064
Accumulated other comprehensive income (loss), net	4,101	(5,157)
Retained earnings	376,354	318,107
Total shareholders' equity	417,730	353,014
Total liabilities and shareholders' equity	$ 4,932,029	$ 4,041,345

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except for per share amounts)

	Years Ended December 31, 2023	2022	2021
INTEREST INCOME			
Interest and fees on loans	$ 138,479	$ 110,213	$ 96,935
Taxable interest and dividends on securities	16,432	7,148	5,364
Tax exempt interest and dividends on securities	114	120	125
Interest on federal funds sold and other	17,400	2,962	392
Total interest income	172,425	120,443	102,816
INTEREST EXPENSE			
Interest on deposits	85,569	19,077	6,924
Interest on other borrowings	3,428	475	184
Other interest (income) expense	(37,435)	(828)	5,487
Total interest expense	51,562	18,724	12,595
Net interest income	120,863	101,719	90,221
Provision for credit losses – loans	12,000	18,405	10,500
Provision for credit losses – unfunded commitments	585	—	—
Total provision for credit losses	12,585	18,405	10,500
Net interest income after provision for credit losses	108,278	83,314	79,721
NONINTEREST INCOME			
Service charges on deposit accounts	845	974	992
Check card revenue	713	763	803
Net payments received on free-standing derivatives	7,962	—	—
Net changes in the fair value of derivatives	(109)	8,378	4,828
Real estate lease income	506	953	1,167
FHLB dividends	1,125	938	862
Net loss on sales of securities	—	(3,921)	—
Gain on sale of investment	—	6,944	3,440
Other noninterest income	1,833	1,809	990
Total noninterest income	12,875	16,838	13,082
NONINTEREST EXPENSE			
Salaries and employee benefits	22,676	20,011	17,668
Occupancy and equipment	2,354	4,268	3,733
Data processing	3,219	3,098	3,160
Federal deposit insurance	1,996	1,083	1,126
Other noninterest expense	5,653	4,572	4,180
Total noninterest expense	35,898	33,032	29,867
Income before income taxes	85,255	67,120	62,936
Provision for income taxes	24,918	19,297	18,461
Net income	$ 60,337	$ 47,823	$ 44,475

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

(Dollars in thousands except for per share amounts)

	Years Ended December 31, 2023	2022	2021
Basic earnings per common share	$ 40.49	$ 32.22	$ 30.14
Diluted earnings per common share	$ 40.49	$ 32.22	$ 30.14
Weighted average shares – Basic	1,489,991	1,484,055	1,475,590
Weighted average shares – Diluted	1,489,991	1,484,055	1,475,590

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Years Ended December 31, 2023	2022	2021
Net income	$ 60,337	$ 47,823	$ 44,475
Other comprehensive income:			
Unrealized holding gain (loss) on debt securities available fo sale arising during the period	15,681	(25,064)	(7,747)
Reclassification adjustment for losses on debt securities available for sale included in net income	33	70	87
Tax effect	(4,714)	7,498	2,298
Net of tax	11,000	(17,496)	(5,362)
Unrealized gain on cash flow hedge	—	21,120	—
Reclassification adjustment for losses included in net income	(2,488)	(1,159)	—
Tax effect	746	(5,988)	—
Net of tax	(1,742)	13,973	—
Total other comprehensive income (loss)	9,258	(3,523)	(5,362)
Comprehensive income	$ 69,595	$ 44,300	$ 39,113

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands except for per share amounts)

	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income (Loss), Net	Retained Earnings	Total Shareholders' Equity
Balance at January 1, 2021	1,445,350	$36,121	$ 3,728	$229,629	$269,478
Net income				44,475	44,475
Other comprehensive income			(5,362)		(5,362)
Stock compensation expense		1,915			1,915
Restricted shares vested	8,786				
Repurchase of common stock	(1,425)	(291)			(291)
Common dividends ($1.26 per share)				(1,860)	(1,860)
Balance at December 31, 2021	1,452,711	37,745	(1,634)	272,244	308,355
Net income				47,823	47,823
Other comprehensive loss			(3,523)		(3,523)
Stock compensation expense		2,319			2,319
Restricted shares vested	10,055				
Common dividends ($1.32 per share)				(1,960)	(1,960)
Balance at December 31, 2022	1,462,766	40,064	(5,157)	318,107	353,014
Net income				60,337	60,337
Other comprehensive income			9,258		9,258
Stock compensation expense		1,753			1,753
Restricted shares vested	12,283				
Repurchase of common stock	(22,242)	(4,542)			(4,542)
Common dividends ($1.40 per share)				(2,090)	(2,090)
Balance at December 31, 2023	1,452,807	$37,275	$ 4,101	$376,354	$417,730

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended December 31, 2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 60,337	$ 47,823	$ 44,475
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	763	4,476	6,600
Provision for credit losses	12,585	18,405	10,500
Net increase (decrease) in net deferred loan fees and costs	728	496	(2,157)
Deferred income taxes	(3,559)	(3,418)	(2,283)
(Gain) loss on sale or abandonment of premises and equipment	—	(681)	111
Net loss on sale of securities	—	3,921	—
Fair value adjustment on hedged loans	(23,133)	105,466	12,492
Fair value adjustment on derivatives	20,821	(104,402)	(12,391)
Net loss (gain) of derivatives	109	(8,378)	(4,828)
(Increase) decrease in accrued interest receivable	(4,606)	(2,958)	1,083
Gain on sale of investment	—	(6,944)	(3,440)
(Increase) decrease in other assets	(5,433)	4,443	4,260
Stock compensation expense	1,753	2,319	1,915
Increase in accrued interest payable	6,167	543	144
Increase (decrease) in other liabilities	3,695	3,377	(2,535)
Net cash provided by operating activities	70,227	64,488	53,946
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease (increase) in securities purchased under agreements to resell	—	40,000	(40,000)
Available-for-sale debt securities			
Sales	—	30,067	—
Maturities, prepayments and calls	394,193	230,005	313,962
Purchases	(421,488)	(211,06)	(358,508)
Held-to-maturity securities – maturities, prepayments and calls	—	1,700	—
Equity securities net activity	(1,822)	(322)	(3,442)
Loan originations and payments, net	(447,208)	(503,237)	(305,846)
Purchases of premises and equipment	(296)	(1,146)	(486)
Proceeds from sale or disposal of premise and equipment	—	956	—
Net cash used in investing activities	(476,693)	(413,044)	(394,320)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Dollars in thousands)

	Years Ended December 31, 2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, money market accounts, NOW accounts and savings deposits	$ 307,152	$ (95,465)	$ 314,834
Net increase in time deposits	571,208	211,756	732
Net (decrease) increase in other borrowings	(50,000)	92,000	(5,000)
Net (decrease) increase of cash collateral related to derivatives	(12,820)	127,760	—
Repurchase of common stock	(4,542)	—	(291)
Cash dividends paid – common	(2,090)	(1,960)	(1,860)
Net cash provided by financing activities	808,908	334,091	308,415
Net increase (decrease) in cash and equivalents	402,442	(14,465)	(31,959)
Cash and cash equivalents at beginning of year	146,591	161,056	193,015
Cash and cash equivalents at end of year	$ 549,033	$ 146,591	$ 161,056
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for			
Interest	$ 45,395	$ 18,181	$ 12,451
Income taxes	$ 27,844	$ 21,231	$ 20,958
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Lease liabilities arising from obtaining right-of-use assets	$ 433	$ —	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

The accounting and reporting policies of River City Bank (the Bank) and its wholly owned subsidiaries River City Property Corporation (RCPC) and River City Money Management Company (RCMMC) conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Nature of Operations and Principles of Consolidation

The Bank is a California state-chartered bank headquartered in Sacramento, California, and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the applicable amounts. The Bank operates eight branch locations within El Dorado, Placer, Sacramento and Yolo counties. Additionally, the Bank operates one loan production office in San Francisco County. The Bank's primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial real estate, commercial, agriculture, residential mortgage, and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate in the Western United States. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area. The Bank's wholly owned subsidiaries, RCPC and RCMMC, have not had significant operations in 2023, 2022 and 2021.

The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries for all periods presented. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Recently Adopted Accounting Pronouncements

ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326)

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. In addition, the amendments in Topic 326 require credit losses on available-for-sale to be presented as a valuation allowance rather than as a direct write-down.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements (continued)

ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326) (continued)

Management adopted ASU 2016-13, as amended, on January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit commitments. Results for reporting periods beginning on or after January 1, 2023 are presented under Accounting Standards Codification ("ASC") 326 while prior period amounts continue to be reported in accordance with previously applicable accounting principles generally accepted in the United States of America. The adoption of the standard did not have a material impact on the allowance for credit losses for loans or for unfunded commitments. See *Note 3* for further discussion.

ASU 2020-04, *Reference Rate Reform* (Topic 848) and ASU 2022-06, *Deferral of the Sunset Date of Topic 848*

On March 12, 2020, the FASB issued Update 2020-04 to ease the potential burden in accounting for reference rate reform. The amendments in Update 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR.

The new guidance provides optional expedients that reduce costs and complexity of accounting for reference rate reform. These include, simplifying accounting analyses for contract modifications Hedging relationships continue without de-designation if there are qualifying changes in the critical terms of an existing hedging relationship due to reference rate reform. The guidance allows for a change in the systematic and rational method used to recognize in earnings the components excluded from the assessment of hedge effectiveness. Additionally, changes in the designated benchmark interest rate to a different eligible benchmark interest rate is allowed in a fair value hedging relationship and shortcut method may continue for remainder of the hedging relationship. It also simplifies the assessment of hedge effectiveness and provides temporary optional expedients for cash flow hedging relationships affected by reference rate reform.

In January 2021, the FASB issued ASU 2021-01 which clarified that all derivative instruments affected by the changes in interest rates used for discounting, margining or contract price alignment, regardless of whether they reference LIBOR, an entity may apply certain practical expedients in Topic 848.

In December 2022, the FASB issued ASU 2022-06 which deferred the sunset date of Topic 848 to December 31, 2024. After this date, an entity will not be able to apply the practical expedients in Topic 848.

The adoption of this standard did not have material effect on the Bank's operating results or financial condition.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements (continued)

ASU 2022-02, *Financial Instruments – Credit Losses* (Topic 326) – *Troubled Debt Restructurings and Vintage Disclosures*

This update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan.

Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures.

Management adopted ASU 2022-02 as of January 1, 2023, using the modified retrospective transition approach. The adoption did not have a material impact on the Bank's financial position or results of operations.

Risks and Uncertainties

In the normal course of business, the Bank encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default, primarily in the loan portfolio, that results from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of securities, the value of collateral underlying loans receivable, the valuation of other investments, the valuation of deferred tax assets, the valuation of the interest rate swaps and the valuation of interest rate caps.

The Bank is subject to the regulations of various governmental agencies. These regulations can change from period to period. Such regulations can also restrict the Bank's ability to sustain continued growth as a result of capital and other requirements. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required allowance for credit losses and operating restrictions resulting from the regulators' judgments based upon information available to them at the time of their examination.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through January 26, 2024, which is the date the financial statements were available to be issued.

Interest-Bearing Deposits in Other Financial Institutions

Interest bearing deposits in other financial institutions mature within one year and are carried at cost.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Securities Purchased Under Agreements to Resell

The Bank enters into purchases of securities under agreements to resell substantially identical securities. Securities purchased under agreements to resell consist of a variety of debt securities, including U.S. Government securities, municipal bonds, assetbacked securities, corporate securities and money market commercial paper. The amounts advanced under these agreements are reflected as assets. It is the Bank's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Bank's rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Bank's account maintained into a third-party custodian's account designated under a written custodial agreement that explicitly recognizes the Bank's interest in the securities. As of December 31, 2023 and 2022, the Bank did not have any outstanding securities purchased under agreements to resell.

Securities

Debt securities at December 31, 2023 and 2022 consist of U.S. Treasury and U.S. Government agency obligations, mortgage-backed securities, municipal securities, collateralized mortgage obligations, corporate bonds and other securities. At the time of purchase of a security the Bank designates debt securities as held-to-maturity or available-for-sale, based on the investment objectives, operational needs and intent to hold. The Bank does not purchase securities with the intent to engage in trading activity. Equity securities of $11,232,000 and $9,410,000 as of December 31, 2023 and 2022, respectively, include legacy VISA stock, investments in Small Business Investment Company (SBIC) funds and in a Small Business Administration loan fund. The equity securities are carried at cost as the fair market value for these securities are not readily determinable and reviewed for impairment at least annually.

Securities purchased which are classified as held-to-maturity securities are classified as such based on the Bank's ability and intent to hold such securities to maturity. Debt securities held-to-maturity are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income.

Available-for-sale securities are carried at fair value with unrealized gains or losses included in other comprehensive income (loss), net of tax (OCI). Gains and losses realized upon disposition of securities are recorded as a component of noninterest income on the trade date, based upon the net proceeds and the adjusted carrying value of the securities using the specific identification method.

Premiums and discounts on securities are amortized or accreted over the life of the investment security as an adjustment to yield using the effective interest method. For securities purchased at a premium with a call date, the premium is amortized to that call date.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Securities (continued)

For available-for-sale securities in an unrealized loss position, management first evaluates whether the decline in fair value has resulted from an actual or estimated credit loss event. Management considers, among other factors, the extent to which fair value is less than amortized cost, changes to the rating of the security, and adverse conditions specifically related to the security. If this assessment indicates that a credit loss is likely, management then assesses whether it has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost and determines the present value of cash flows expected to be collected from the security as compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, an allowance for credit losses is recorded for the estimated credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance is recognized in OCI. Accrued interest receivable on available-for-sale securities is excluded from the estimate of credit losses.

Loans and Allowance for Credit Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the Allowance for Credit Losses (ACL). Amortized cost is the principal balance outstanding plus or minus net deferred loan costs and fees. Accrued interest receivable is reported separately on the Consolidated Balance Sheets and is excluded from the estimate of credit losses. Interest on loans is credited to income based on the principal amount outstanding. Direct loan origination costs, net of loan origination fees, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is accrued using methods that approximate a level yield on the principal outstanding, based on the contractual terms of the loan. Loans are placed on nonaccrual status when the full timely collection of principal or interest becomes uncertain or when principal or interest is past due for 90 days or more, except for loans that are both well secured and in the process of collection. Past due status is based on the contractual terms of the loan. Loans that are placed on nonaccrual status are considered to be non-performing; all other loans are considered to be performing. At the time a loan is placed on nonaccrual status, any interest income previously accrued but not collected is reversed. Subsequent payments received in cash are generally recognized as interest income if the collectability of the remaining balance of the loan is not in doubt. Interest accruals are resumed when such loans are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Bank's loan portfolio. The ACL is established through provisions for credit losses charged against income. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the ACL, and subsequent recoveries, if any, are credited to the ACL.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Loans and Allowance for Credit Losses (continued)

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience generally provides the basis for the estimate of expected credit losses. Given that the Bank's charge-off history in the recent past is limited, the Bank is utilizing a nation-wide index of charge-off history as a baseline for loss rates in its cash flow modeling. The index is a national dataset containing loan level information, as well as the related charge-offs and recoveries of regional and community banks across the U.S. In total, this data covers multiple economic cycles, has a broad geographic footprint, covers many loan categories, and provides sufficient details to support robust modeling of Probability of Default (PD) and Loss Given Default (LGD). The ACL model utilizes a discounted cash flow method to measure the expected credit losses on loans collectively evaluated. This method incorporates assumptions for PD, LGD and prepayments over the contractual terms of the loans. The Bank utilizes a reasonable and supportable forecast period of two years and obtained unemployment forecast data from Federal National Mortgage Association (FNMA) and the Federal Reserve Bank. For periods beyond the forecast horizon, the economic factors revert to historical averages on a straight-line basis over a two-year period. Adjustments to historical loss information are made for differences in current loanspecific risk characteristics such actual and expected changes in economic and business conditions, the nature and volume of the Bank's loan portfolio, property values of underlying collateral and other relevant factors.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the ACL using the PG/LGD cash flow method for each of the segments listed:

Commercial and industrial: Repayment of these loans is primarily based on the cash flow of the borrower, and secondarily on the underlying collateral provided by the borrower. A borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Most often, collateral includes accounts receivable, inventory, or equipment. Collateral securing these loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. Actual and forecast changes in gross domestic product are believed to be corollary to losses associated with these credits.

Commercial real estate: These commercial properties typically consist of buildings which are leased to others for their use and rely on rents as the primary source of repayment. For purposes of the ACL, it also includes owner-occupied properties. Property types are predominantly multifamily, office, retail, or light industrial but the portfolio also has some special use properties. As such, the risk of loss associated with these properties is primarily driven by general economic changes or changes in regional economies and the impact of such on a tenant's ability to pay. Ultimately this can affect occupancy, rental rates, or both. Additional risk of loss can come from new construction resulting in oversupply, the costs to hold or operate the property, or changes in interest rates. The terms on these loans at origination typically have maturities from five to ten years with amortization periods from fifteen to twenty-five years.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Loans and Allowance for Credit Losses (continued)

Construction and land development: While secured by real estate, construction and land development loans represent a greater level of risk than commercial real estate loans due to the nature of the additional risks associated with the not only the completion of construction within an estimated time period and budget, but also the need to either sell the building or reach a level of stabilized occupancy sufficient to generate the cash flows necessary to support debt service and operating costs. The Bank seeks to mitigate the additional risks associated with construction lending by requiring borrowers to comply with lower loan to value ratios and additional covenants as well as strong tertiary support of guarantors. The loss forecasting model applies the historical rate of loss for similar loans over the expected life of the asset as adjusted for macroeconomic factors.

Residential real estate: The most significant drivers of potential loss within the Bank's residential real estate portfolio relate to general, regional, or individual changes in economic conditions and their effect on employment and borrowers cash flow. Risk in this portfolio is best measured by changes in borrower credit score and loan-to-value. Loss estimates are based on the general movement in credit score, economic outlook and its effects on employment and the value of homes and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

Consumer: The majority of these consumer loans are home equity lines of credit (HELOCs) or other junior lien credits. Similar to residential real estate term loans, HELOCs and junior liens performance is also primarily driven by borrower cash flows based on employment status. However, HELOCs carry additional risks associated with the fact that most of these loans are secured by a deed of trust in a position that is junior to the primary lien holder.

Agricultural: Repayment of agricultural loans is dependent upon successful operation of the agricultural business, which is greatly impacted by factors outside the control of the borrower. These factors include adverse weather conditions, including access to water, that may impact crop yields, declines in market prices for agriculture products, changes in foreign exchange, and the impact of government regulations. In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the business. Consequently, agricultural production loans may involve a greater degree of risk than other types of loans.

Management believes that the methods selected fairly reflect the historical loss component of expected losses inherent in the Bank's loan portfolio. However, since future losses could vary significantly from those experienced in the past, on a quarterly basis management considers whether adjustments to the quantitative portion of the ACL are needed to reflect the extent to which it expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed in the historical period included in the development of PD and LGD. Qualitative characteristics include, but are not limited to, economic and business conditions; differences in the nature and volume of the Bank's financial assets; the volume and severity of deterioration of the Bank's loans; changes in underlying collateral; and the effect of other external factors such as regulatory, legal and technological environments and environmental risks.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Loans and Allowance for Credit Losses (continued)

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs as appropriate. For individually assessed loans that are not collateral dependent, the Bank will generally use a discounted cash flow method to determine the ACL. Determining expected future cash flows can be more subjective than determining fair values. Expected future cash flows could differ significantly, both in timing and amount, from the cash flows actually received over the loan's remaining life.

Modifications to borrowers experiencing financial difficulty are included in loans collectively evaluated for credit loss. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. A charge to the allowance for credit losses is generally not recorded upon modification.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. These risk grades are given to the commercial and industrial; commercial real estate; construction and land development and agricultural portfolio segments. The Bank uses the following definitions for risk ratings:

- **Special Mention** – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- **Substandard** – Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful** – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full highly questionable and improbable.

Management believes that as of December 31, 2023 and 2022 the ACL is adequate based on information currently available. The ACL is an amount that management currently believes will be adequate to absorb current expected credit losses in the Bank's loan portfolio. The process for estimating credit losses and determining the ACL as of any balance sheet date is subjective in nature and requires material estimates. Actual results could differ significantly from those estimates.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses for Unfunded Commitments

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses for unfunded commitments is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Bank uses the same process as described above for loans, to estimate historical losses, economic conditions and reasonable and supportable forecasts.

Concentration of Credit Risk

Most of the Bank's business activity is with commercial real estate borrowers in the Western United States. Therefore, the Bank's exposure to credit risk is significantly affected by interest rate changes, commercial real estate valuations and societal trends that may lead to less use of commercial real estate properties.

Other Real Estate Owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, principally 10 to 39 years for buildings and improvements and 3 to 7 years for equipment and furniture. The cost of leasehold improvements is amortized on a straight-line basis over the lesser of the terms of the related leases or estimated useful life.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The cash surrender value of these insurance policies was $8,137,000 and $7,878,000 as of December 31, 2023 and 2022, respectively, and is recorded in other assets.

Federal Home Loan Bank of San Francisco (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. As of December 31, 2023 and 2022, the Bank owned stock with a book value of $15,000,000. These amounts are included in other assets in the consolidated balance sheets. Both cash and stock dividends are reported as income. The Bank received cash dividends of $1,125,000, $938,000 and $862,000, in 2023, 2022 and 2021, respectively. No ready market exists for the FHLB stock, and it has no quoted market value.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Qualified Affordable Housing Project Investments

The Bank invests in qualified affordable housing projects. The Bank's balance of the investment for qualified affordable housing projects was $4,297,000 and $832,000 as of December 31, 2023 and 2022, respectively. These balances are included in other assets. At the time the Bank enters into an investment, the Bank is required to record the entire commitment to the investment on the balance sheet as an investment and the related obligation. Total unfunded commitments to the investments in qualified affordable housing projects totaled $3,184,000 and $109,000 at December 31, 2023 and 2022 respectively. During the years ended December 31, 2023, 2022 and 2021, the Bank recognized amortization expense of $182,000, $176,000 and $178,000, respectively, which was included within income tax expense on the consolidated statements of operations. Additionally, during the years ended December 31, 2023, 2022 and 2021, the Bank recognized tax credits and other benefits from its investment in affordable housing tax credits of $205,000, $197,000 and $198,000.

Investment in Registered Investment Advisor

The Bank's investment in a registered investment advisor firm as of December 31, 2023 and 2022 was $7,599,000 and is included in other assets. This investment is carried at cost and periodically evaluated for impairment. During January 2021, the registered investment advisor which the Bank had made an investment in 2012, sold itself to a larger, national firm. The Bank received cash consideration of $3,101,000 and shares in the national firm valued at $5,169,000. Based on the consideration received from the sale, the Bank recognized a $3,440,000 gain on sale. During 2022, the Bank received a second purchase payment related to a true-up calculation. The Bank received additional cash consideration of $4,514,000 and shares valued at $2,430,000 and recognized a gain of $6,944,000.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Bank recognizes interest and penalties related to income tax matters in income tax expense.

Earnings per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Derivative Instruments and Hedging Activity

The Bank's accounting for derivative instruments requires the Bank to recognize those items as assets or liabilities in the consolidated balance sheet and measure them at fair value. At the inception of a derivative contract, the Bank designates the derivative as one of three types based on the Bank's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income or loss and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify or are not intended as accounting hedges are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are recorded in noninterest income.

The Bank formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Bank is exposed to losses if a counterparty fails to make its payments under a contract in which the Bank is in the net receiving position. The Bank anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Bank is a party settle monthly. In addition, the Bank obtains collateral above certain thresholds of the fair value of its derivatives for each counterparty based upon their credit standing and the Bank netting agreements with the dealers with which it does business.

NOTE 1 – Summary of Significant Accounting Policies (continued)

Statements of Cash Flows

For purposes of reporting cash flows, the Bank considers cash and cash equivalents to include cash and due from financial institutions. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions and FHLB advances.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on debt securities available for sale and unrealized gains and losses on cash flow hedges which are also recognized as separate components of equity. For the years ending December 31, 2023, 2022, and 2021, amounts of previous other-than-temporary impairment of $33,000, $70,000 and $87,000 were reclassified into taxable interest and dividends on securities on the Consolidated Statements of Operations.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in *Note 9*. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. See also *Note 13*.

Reclassifications

Some items in the prior year consolidated financial statements have been reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

NOTE 2 – Securities

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses (*dollars in thousands*):

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Treasury securities	$319,552	$ 679	$ (608)	$319,623
U.S. government sponsored entities and agency securities	201,585	786	(58)	202,313
Municipal securities	5,314	1	(130)	5,185
Mortgage-backed securities: residential	79,085	8	(10,038)	69,055
Mortgage-backed securities: commercial	4,073	8	(6)	4,075
Collateralized mortgage obligations	20,085	132	(733)	19,484
Corporate debt securities	32,330	—	(1,582)	30,748
Asset-backed securities	12,732	—	(73)	12,659
Total available-for-sale	$674,756	$ 1,614	$ (13,228)	$663,142

NOTE 2 – Securities (continued)

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Treasury securities	$341,532	$ —	$ (10,248)	$331,284
U.S. government sponsored entities and agency securities	91,844	24	(711)	91,157
Municipal securities	5,534	2	(174)	5,362
Mortgage-backed securities: residential	90,253	5	(12,372)	77,886
Mortgage-backed securities: commercial	6,877	20	(6)	6,891
Collateralized mortgage obligations	22,573	161	(827)	21,907
Corporate debt securities	70,225	—	(2,909)	67,316
Asset-backed securities	18,226	—	(293)	17,933
Total available-for-sale	$647,064	$ 212	$ (27,540)	$619,736

The Bank also has equity securities of $11,232,000 and $9,410,000 as of December 31, 2023 and 2022. These equity securities are held at cost and evaluated for impairment on at least an annual basis.

The proceeds from sales and calls of securities and the associated gains and losses are listed below (*dollars in thousands*):

	2023	2022	2021
Proceeds	$ —	$ 30,067	$ —
Gross gains	—	—	—
Gross losses	$ —	$ (3,921)	$ —

NOTE 2 – Securities (continued)

The amortized cost and fair value of debt securities at December 31, 2023 by contractual maturity are shown below (*dollars in thousands*). Expected maturities, primarily in the mortgage-backed securities, collateralized mortgage obligation securities and asset-backed securities will differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The contractual maturities of the mortgage-backed securities, collateralized mortgage obligations and asset-backed securities range from 2024 through 2066.

	Available-for-sale	
	Amortized Cost	Fair Value
Due in one year or less	$475,312	$475,255
Due after one year through five years	81,263	80,431
Due after five years through ten years	1,976	1,961
After ten years	230	222
	558,781	557,869
Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities	115,975	105,273
	$674,756	$663,142

At December 31, 2023, securities with a carrying value of $520,113,000 and $48,536,000 were pledged as collateral for deposits of public funds and other purposes, respectively. These amounts at December 31, 2022, were $351,860,000 and $1,672,000, respectively. At December 31, 2023 and 2022 there were no holdings of investment securities of any one issuer, other than the U. S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

NOTE 2 – Securities (continued)

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position (*dollars in thousands*):

	2023					
	Less than 12 months		12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale						
U.S. Treasury securities	$ —	$ —	$ (608)	$ 89,399	$ (608)	$ 89,399
U.S. government sponsored entities and agency securities	(37)	39,780	(21)	4,978	(58)	44,758
Municipal securities	(3)	1,280	(127)	3,146	(130)	4,426
Mortgage-backed securities: residential	(1)	93	(10,037)	68,647	(10,038)	68,740
Mortgage-backed securities: commercial	—	—	(6)	1,076	(6)	1,076
Collateralized mortgage obligations	(14)	4,176	(719)	15,131	(733)	19,307
Corporate debt securities	—	—	(1,582)	30,748	(1,582)	30,748
Asset-backed securities	(29)	4,723	(44)	7,936	(73)	12,659
Total unrealized losses	$ (84)	$ 50,052	$(13,144)	$221,061	$(13,228)	$271,113

NOTE 2 – Securities (continued)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions, at December 31, 2022, were as follows (*dollars in thousands*):

	2022					
	Less than 12 months		12 months or more		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale						
U.S. Treasury securities	$ (3,078)	$121,222	$ (7,170)	$210,063	$(10,248)	$331,285
U.S. government sponsored entities and agency securities	(553)	69,249	(158)	9,845	(711)	79,094
Municipal securities	(46)	3,729	(128)	869	(174)	4,598
Mortgage-backed securities: residential	(403)	6,526	(11,969)	70,925	(12,372)	77,451
Mortgage-backed securities: commercial	(6)	2,062	—	—	(6)	2,062
Collateralized mortgage obligations	(757)	15,738	(70)	1,227	(827)	16,965
Corporate debt securities	(716)	48,522	(2,193)	18,794	(2,909)	67,316
Asset-backed securities	(217)	11,588	(76)	6,345	(293)	17,933
Total unrealized losses	$ (5,776)	$278,636	$(21,764)	$318,068	$(27,540)	$596,704

NOTE 2 – Securities (continued)

As of December, 31, 2023, no allowance for credit losses is deemed necessary for the Bank's available-for-sale securities. Following is a discussion of unrealized losses by type of security at December 31, 2023:

There were 80 securities with a market value of $223,280,000 which had unrealized losses of $11,443,000 at December 31, 2023, were issued by the U.S. government, U.S. government-sponsored entities and agencies, Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because it is likely that the Bank will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have credit impairment at December 31, 2023.

The Bank's corporate debt securities portfolio includes eleven securities with a market value of $30,748,000 which had unrealized losses of $1,582,000 at December 31, 2023. The Bank monitors certain credit characteristics of each corporate issuer on a quarterly basis and these issuers appear to be able to service all outstanding debt. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because it is likely that the Bank will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have credit impairment at December 31, 2023.

The Bank's debt securities portfolio includes twelve municipal securities with a market value of $4,426,000 which had unrealized losses of $130,000 at December 31, 2023. The Bank monitors certain credit characteristics of each municipal security issuer as necessary and these issuers appear to be able to service all outstanding debt. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because it is likely that the Bank will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have credit impairment at December 31, 2023.

The Bank's debt securities portfolio includes seven asset-backed securities with a market value of $12,659,000 which had unrealized losses of $73,000 at December 31, 2023. The Bank monitors certain credit characteristics of each asset-backed security issuer as necessary and these issuers appear to be able to service all outstanding debt. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because it is likely that the Bank will not be required to sell the securities before their anticipated recovery, management does not consider these securities to have credit impairment at December 31, 2023.

The Bank did not have any additional credit losses recognized in earnings for each of the years ending December 31, 2023, 2022 and 2021. The remaining amount of credit losses previously recognized into earnings for securities held at December 31, 2023 and 2022 was $169,000 and $202,000. The Bank recognized gains of $17,000 and $31,000 for the years ending December 31, 2023 and 2022 for payments received from securities which have been fully written down.

NOTE 3 – Loans and Allowances for Credit Losses

The composition of the Bank's loan portfolio presented as the amortized cost basis as follows (*dollars in thousands*):

	December 31, 2023
Commercial and industrial	$ 138,964
Commercial real estate	3,272,478
Construction and land development	11,880
Residential real estate	194,085
Consumer	8,911
Agricultural	51,778
	3,678,096
Less: Fair value adjustment on hedged loans	(80,519)
Allowance for credit losses	(96,051)
Loans, net	$3,501,526

The above table is presented as the amortized cost basis, which includes net deferred loan fees of $8,270,000 as of December 31, 2023. As disclosed in *Note 1*, the 2023 presentation of loan balances will be at the amortized cost basis, in accordance with ASC 326.

The composition of the Bank's loan portfolio presented is as follows (*dollars in thousands*):

	December 31, 2022
Commercial and industrial	$ 164,800
Commercial real estate	2,802,799
Construction and land development	27,554
Residential real estate	191,903
Consumer	9,502
Agricultural	42,489
	3,239,047
Less: Net deferred loan fees	(7,541)
Fair value adjustment on hedged loans	(103,652)
Allowance for loan losses	(84,013)
Loans, net	$3,043,841

The Bank grants commercial and industrial, commercial real estate, construction and land development, residential real estate, consumer, and agricultural loans to customers principally located in the Western United States.

A significant portion of its customers' ability to repay the loans is dependent upon the economic conditions in the Bank's market areas. Secured loans are generally collateralized by real estate, accounts receivable and personal property. The entire consumer portfolio segment is substantially home equity loans.

NOTE 3 – Loans and Allowances for Credit Losses (continued)

For the year ended December 31, 2023, activity in the allowance for credit losses by portfolio segment is as follows (*dollars in thousands*):

	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Agricultural	Unallocated	Total
Allowance for credit losses:								
Beginning balance, prior to adoption of ASC 326	$ 5,147	$72,200	$ 778	$ 1,631	$ 309	$ 1,121	$ 2,827	$84,013
Impact of adopting ASC 326	1,524	(1,628)	(8)	(109)	26	(481)	676	—
Credit loss expense	(742)	12,121	498	835	(68)	(104)	(540)	12,000
Loans charged-off	—	—	—	—	—	—	—	—
Recoveries collected	—	—	—	—	38	—	—	38
Total ending allowance balance	$ 5,929	$82,693	$ 1,268	$ 2,357	$ 305	$ 536	$ 2,963	$96,051

For the year ended December 31, 2022, activity in the allowance for loan losses by portfolio segment is as follows (*dollars in thousands*):

	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Agricultural	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 4,842	$50,802	$ 3,929	$ 1,539	$ 272	$ 1,604	$ 2,007	$64,995
Provision (reversal of) for loan losses	305	21,398	(3,151)	92	(576)	(483)	820	18,405
Loans charged-off	—	—	—	—	(3)	—	—	(3)
Recoveries	—	—	—	—	616	—	—	616
Total ending allowance balance	$ 5,147	$72,200	$ 778	$ 1,631	$ 309	$ 1,121	$ 2,827	$84,013

NOTE 3 – Loans and Allowances for Credit Losses (continued)

For the year ended December 31, 2021, activity in the allowance for loan losses by portfolio segment is as follows (*dollars in thousands*):

	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Agricultural	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 3,813	$41,589	$ 2,895	$ 1,343	$ 368	$ 1,748	$ 2,499	$54,255
Provision (reversal of) for loan losses	1,029	9,213	1,034	196	(336)	(144)	(492)	10,500
Loans charged off	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	240	—	—	240
Total ending allowance balance	$ 4,842	$50,802	$ 3,929	$ 1,539	$ 272	$ 1,604	$ 2,007	$64,995

The allowance for credit losses for unfunded commitments of $785,000 and $200,000 is included in "Other liabilities" on the Consolidated Balance Sheets as of December 31, 2023 and 2022, respectively.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December, 31, 2023 (*dollars in thousands*):

	Commercial Real Estate	Residential Real Estate	Total
Commercial real estate	$ 5,300	$ —	$ 5,300
Consumer	—	14	14
Total ending balance	$ 5,300	$ —	$ 5,314

NOTE 3 – Loans and Allowances for Credit Losses (continued)

The following table presents the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 (*dollars in thousands*):

	Commercial and Industrial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Agricultural	Unallocated	Total
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	5,147	72,200	778	1,631	309	1,121	2,827	84,013
Total ending balance	$ 5,147	$ 72,200	$ 778	$ 1,631	$ 309	$ 1,121	$ 2,827	$ 84,013
Loans:								
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	164,800	2,802,799	27,554	191,903	9,502	42,489	—	3,239,047
Total ending balance	$164,800	$2,802,799	$ 27,554	$191,903	$ 9,502	$42,489	$ —	$3,239,047

As of December 31, 2022, there were no loans individually evaluated for impairment.

NOTE 3 – Loans and Allowances for Credit Losses (continued)

The following table presents the aging of the amortized cost basis in past due loans and nonaccrual loans as of December 31, 2023 by class of loans (*dollars in thousands*):

As of December 31, 2023:

	30–59 Days Past Due	60–89 Days Past Due	Greater than 89 Days	Total Past Due	Non-Accrual	Current	Total Loans
Commercial and industrial	$ —	$ —	$ —	$ —	$ —	$ 138,964	$ 138,964
Commercial real estate	—	—	—	—	—	3,272,478	3,272,478
Construction and land development	—	—	—	—	—	11,880	11,880
Residential real estate	23	—	—	23	—	194,062	194,085
Consumer	130	—	—	130	14	8,767	8,911
Agricultural	—	—	—	—	—	51,778	51,778
Total	$ 153	$ —	$ —	$ 153	$ 14	$3,677,929	$3,678,096

The following table presents the aging of the recorded investment in past due loans which are still accruing and nonaccrual loans as of December 31, 2022 by class of loans (*dollars in thousands*):

As of December 31, 2022:

	30–59 Days Past Due	60–89 Days Past Due	Greater than 89 Days	Total Past Due	Non-Accrual	Current	Total Loans
Commercial and industrial	$ —	$ —	$ —	$ —	$ —	$ 164,800	$ 164,800
Commercial real estate	—	—	—	—	—	2,802,799	2,802,799
Construction and land development	—	—	—	—	—	27,554	27,554
Residential real estate	1	—	—	1	—	191,902	191,903
Consumer	25	—	—	25	—	9,477	9,502
Agricultural	—	—	—	—	—	42,489	42,489
Total	$ 26	$ —	$ —	$ 26	$ —	$3,239,021	$3,239,047

NOTE 3 – Loans and Allowances for Credit Losses (continued)

Credit Quality Indicators:

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows. Term loans presented as the amortized cost basis by origination year (*dollars in thousands*):

As of December 31, 2023:

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial and industrial:							
Risk Rating							
Pass	$ 5,218	$ 4,018	$ 8,451	$ 44,980	$ 16,556	$ —	$ 79,223
Watch	14,649	5,804	2,712	3,708	5,830	—	32,703
Special mention	—	—	—	18,250	1	—	18,250
Substandard	—	—	8,787	—	—	—	8,787
	$ 19,867	$ 9,822	$ 19,950	$ 66,938	$ 22,387	$ —	$ 138,964
Commercial real estate:							
Risk Rating							
Pass	$ 636,779	$ 683,767	$ 487,437	$1,007,910	$ 7,291	$ —	$2,823,184
Watch	4,212	83,369	79,327	181,085	—	—	347,993
Special mention	—	—	2,703	27,144	—	—	29,847
Substandard	—	—	—	69,955	—	—	69,955
Doubtful	—	—	—	1,499	—	—	1,499
	$ 640,991	$ 767,136	$ 569,467	$1,287,593	$ 7,291	$ —	$3,272,478

NOTE 3 – Loans and Allowances for Credit Losses (continued)

Credit Quality Indicators (continued)**:**

As of December 31, 2023:

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Construction and land development:							
Risk Rating							
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Watch	2,662	4,522	4,696	—	—	—	11,880
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
	$ 2,662	$ 4,522	$ 4,696	$ —	$ —	$ —	$ 11,880
Residential real estate:							
Risk Rating							
Pass	$ 17,067	$ 24,802	$ 65,205	$ 87,011	$ —	$ —	$ 194,085
Watch	—	—	—	—	—	—	—
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
	$ 17,067	$ 14,802	$ 65,205	$ 87,011	$ —	$ —	$ 194,085
Consumer:							
Risk Rating							
Pass	$ 1,211	$ 771	$ 476	$ 2,622	$ 3,817	$ —	$ 8,897
Watch	—	—	—	—	—	—	—
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	14	—	—	14
	$ 1,211	$ 771	$ 476	$ 2,636	$ 3,817	$ —	$ 8,911

NOTE 3 – Loans and Allowances for Credit Losses (continued)

Credit Quality Indicators (continued)**:**

As of December 31, 2023:

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Agricultural:							
Risk Rating							
Pass	$ —	$ 572	$ 731	$ 11,173	$ 34,294	$ —	$ 46,770
Watch	—	—	—	2,835	2,173	—	5,008
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
	$ —	$ 572	$ 731	$ 14,008	$ 36,467	$ —	$ 51,778
Total loans	$ 681,798	$ 807,625	$ 660,525	$1,458,186	$ 69,962	$ —	$3,678,096

The Bank did not have any gross charge-offs during the year ended December 31, 2023.

NOTE 3 – Loans and Allowances for Credit Losses (continued)

Credit Quality Indicators (continued)**:**

Non-classified loans are those with credit risk ratings of either Pass, Watch or Special Mention, while classified loans are those with a credit risk ratings of either Substandard, Doubtful or Impaired. The following table presents the credit risk rating categories by class of loans as of December 31, 2022 (*dollars in thousands*):

	Nonclassified	**Classified**	**Total**
Commercial and industrial	$ 164,800	$ —	$ 164,800
Commercial real estate	2,790,887	11,912	2,802,799
Construction and land development	27,554	—	27,554
Residential real estate	191,903	—	191,903
Consumer	9,502	—	9,502
Agricultural	42,489	—	42,489
Total	$3,227,135	$ 11,912	$3,239,047

The Bank did not have any loan modifications to borrowers experiencing financial difficulty for the year ended December 31, 2023. To determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

The Bank had no troubled debt restructurings for the year ended December 31, 2022. The terms of certain other loans were modified during the year ending December 31, 2022 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2022 of $23,418,000. The modification of these loans generally involved a modification of the terms of a loan to borrowers who were not experiencing financial difficulties, primarily in the form of rate changes or maturity date extensions.

NOTE 4 – Premises and Equipment

Premises and equipment consist of the following (*dollars in thousands*):

	December 31, 2023	December 31, 2022
Land	$ 2,707	$ 2,707
Building and improvements	19,100	19,193
Equipment and furniture	5,235	5,071
	27,042	26,971
Less accumulated depreciation and amortization	(16,024)	(15,070)
	$ 11,018	$ 11,901

Depreciation and amortization expense amounted to $1,160,000, $1,221,000, and $1,252,000 for the years ending December 31, 2023, 2022 and 2021, respectively. During the years ended December 31, 2023, 2022 and 2021, the Bank had losses on abandonment of premises and equipment of $0, $131,000, and $111,000. During 2022, the Bank also sold a building and recognized a gain of $728,000.

NOTE 5 – Time Deposits

As of December 31, 2023 and 2022, time deposits that meet or exceed the FDIC insurance limit of $250,000 totaled $821,760,000 and $272,105,000, respectively.

At December 31, 2023, the aggregate scheduled maturities for time deposits are as follows (*dollars in thousands*):

Years Ending December 31,	
2024	$848,847
2025	22,406
2026	488
2027	120
2028	720
Thereafter	9
	$872,590

NOTE 6 – Other Borrowings

At December 31, 2023 and 2022, other borrowings were comprised of the following (*dollars in thousands*):

	December 31, 2023	December 31, 2022
Federal Reserve Bank – Bank Term Funding Plan Advance – Maturity in April 2024, fixed rate of 4.90%	$ 50,000	$ —
FHLB Advance – Maturity in January 2023, fixed rate of 4.65%	—	100,000
	$ 50,000	$100,000

The Bank maintains a collateralized line of credit with the FHLB. Based on the FHLB stock requirements at December 31, 2023, this line provided for maximum borrowings of $1,149,000,000 of which $0 was outstanding in advances and $730,000,000 was outstanding as a letter of credit, which is generally used as collateral for public fund deposits. At December 31, 2022, this line provided for maximum borrowings of $1,143,301,000 of which $100,000,000 was outstanding in advances and $470,000,000 was outstanding as a letter of credit. The Bank has also pledged certain loans of approximately $1,898,663,000 and $1,827,328,000 under a blanket lien arrangement to collateralize the line of credit with the FHLB as of December 31, 2023 and 2022.

The Bank maintains a collateralized line of credit with the Federal Reserve Bank of San Francisco (FRBSF) Discount Window secured by certain pledged loans. As of December 31, 2023 and December 31, 2022, this line provided for maximum borrowings of $763,789,000 and $54,177,000, respectively, of which $0 was outstanding. The Bank has pledged certain loans of approximately $1,287,010,000 and $96,524,000 to the FRBSF as of December 31, 2023 and 2022. In addition, under the Federal Reserve's BTFP facility, the Bank has pledged $53,012,000 of investment securities based on the par value as of December 31, 2023.

Other borrowings maturities over the next five years are as follows (*dollars in thousands*):

2024	$ 50,000
2025	—
2026	—
2027	—
2028	—
Thereafter	—
	$ 50,000

NOTE 7 – Leases

The Bank enters into leases in the normal course of business primarily for branch offices, administrative facility, loan production offices and land. The Bank's leases have remaining terms ranging from one to ten years, some of which have renewal or termination options to extend the lease between four and fifteen years. The Bank's leases do not include residual value guarantees or covenants. All of the Bank's leases are classified as operating leases.

The Bank includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. In addition, the Bank has elected to not include any non-lease components in its real estate leases as part of the associated lease component. The Bank has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Bank's balance sheet.

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 the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's 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 the lease payments over the lease term.

The Bank 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 Bank's incremental borrowing rate is based on the FHLB advance rate, adjusted for the lease term and other factors. As of December 31, 2023 and 2022, the Bank's weighted average incremental borrowing rates (discount rate) were 2.52% and 1.57% for the existing operating leases, respectively.

As of December 31, 2023, the right-of-use assets for the Bank's leases were $1,554,000 and included in Other Assets and the lease liabilities were $1,632,000 and included in Other Liabilities on the Bank's Consolidated Balance Sheets. As of December 31, 2022, the right-of-use assets for the Bank's leases were $1,431,000 and included in Other Assets and the lease liabilities were $1,529,000 and included in Other Liabilities on the Bank's Consolidated Balance Sheets.

Rental expense charged to operations for all operating leases was $164,000, $1,494,000, and $1,302,000, for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 7 – Leases (continued)

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows (*dollars in thousands*):

Years Ending December 31,	
2024	$ 307
2025	352
2026	324
2027	202
2028	119
Thereafter	435
Total undiscounted lease payments	$ 1,739
Less: imputed interest	(107)
Net lease liabilities	$ 1,632

As of December 31, 2023 and 2022, the weighted average remaining lease term for the Bank's operating leases was 6.3 years and 7.0 years, respectively.

Additionally, the Bank is the lessor on certain properties adjacent to branch offices and an administrative facility. These non-cancelable lease agreements have been accounted for as operating leases and the rental income is recognized as noninterest income in the Consolidated Statements of Operations. Rental income recognized for all operating leases was $506,000, $953,000, and $1,167,000, for the years ended December 31, 2023, 2022 and 2021, respectively.

Future minimum rentals to be made by the tenants by year under long-term, non-cancelable operating leases are as follows (*dollars in thousands*):

Years Ending December 31,	
2024	$ 215
2025	150
2026	83
2027	20
2028	—
Thereafter	—
	$ 468

NOTE 8 – Income Taxes

Following is a summary of the provision for income tax expense (*dollars in thousands*):

	Years Ended December 31, 2023	2022	2021
Current tax expense			
Federal	$ 18,282	$ 14,451	$ 13,372
State	10,195	8,264	7,372
	28,477	22,715	20,744
Deferred tax (benefit) expense			
Federal	(2,405)	(2,253)	(1,558)
State	(1,154)	(1,165)	(725)
	(3,559)	(3,418)	(2,283)
	$ 24,918	$ 19,297	$ 18,461

NOTE 8 – Income Taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (*dollars in thousands*):

	Years Ended December 31, 2023	2022
Deferred tax assets		
Allowance for credit losses	$ 30,833	$ 26,813
Lease liability	520	487
Supplemental retirement plan expense	862	1,076
Unrealized losses on available-for-sale investment securities, net	3,484	8,198
Stock compensation	510	206
Accrued bonuses	816	950
State taxes	188	35
Other deferred taxable expenses	625	778
	37,838	38,553
Deferred tax liabilities		
Deferred loan costs, net	(1,022)	(1,052)
Depreciation	(652)	(806)
Federal Home Loan Bank stock dividends	(325)	(325)
Investment in equity method investments	(98)	(224)
Capitalization of prepaid assets	(159)	(145)
Net changes in fair value of derivatives	(9,889)	(9,938)
Right-of-use asset	(495)	(456)
	(12,640)	(12,946)
Net deferred tax assets	$ 25,198	$ 25,607

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, and the implementation of various tax planning strategies, if necessary, management believes it is more likely than not the Bank will realize the benefits of these deductible differences as of December 31, 2023 and 2022 and, accordingly, no valuation allowance has been provided.

NOTE 8 – Income Taxes (continued)

The following table reconciles the statutory income tax rate to the consolidated effective income tax rate:

	Years Ended December 31, 2023	2022	2021
Federal income tax rate	21.0%	21.0%	21.0%
State franchise tax rate, net of federal income tax effect	8.4	8.4	8.4
Effect in tax rate resulting from:			
Tax exempt income	—	(0.1)	(0.1)
Low income housing tax credits	(0.2)	(0.2)	(0.3
Bank owned life insurance	(0.1)	(0.1)	(0.1)
Restricted stock benefit	—	(0.2)	(0.1)
Solar tax credits	(0.1)	(0.3)	—
Other items, net	0.2	0.3	0.5
	29.2%	28.8%	29.3%

The Bank and its subsidiaries are subject to U.S. federal income tax as well as income tax from several states, primarily the state of California. The Bank is no longer subject to examination by federal taxing authorities for years before 2020 and by state taxing authorities for years before 2019. The Bank does not believe that there are tax jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Bank's financial position, cash flows or results of operations. The Bank further believes that adequate provisions have been made for all income tax uncertainties.

The amount of the accrued income tax liability for uncertainties related to tax benefits was not material to the consolidated financial statements as of December 31, 2023 and 2022. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. Additionally, the total amount of interest and penalties recorded in the Consolidated Statements of Operations for the years ended December 31, 2023, 2022 and 2021 was also not material.

NOTE 9 – Fair Values Measurements

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

Investment Securities, Available for Sale

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, included certain collateralized mortgage and debt obligations, agency preferred stock and certain high-yield debt securities. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair values of Level 3 investment securities are determined by the Bank's Accounting department, which reports to the Chief Financial Officer. Assumptions such as cash flows, loss severities, volatility, credit spread and optionality are reviewed as necessary. During times when trading is more liquid, broker quotes are used (if available) to validate the model. The Bank's evaluations are based on market data and the Bank employs combinations of these approaches for its valuation methods depending on the asset class.

Impaired Loans

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals or broker opinions of value, collectively referred to as appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. Subsequent to a loan being deemed impaired, the Bank will generally evaluate using internally developed desktop valuations, using similar approaches as the initial appraisal.

NOTE 9 – Fair Values Measurements (continued)

Impaired Loans (continued)

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Bank management may make additional adjustments to the fair value of the properties through desktop valuations.

Derivatives

The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

NOTE 9 – Fair Values Measurements (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below (*dollars in thousands*):

Fair Value Measurements at December 31, 2023

	Carrying Value	Level 1	Level 2	Level 3
Assets:				
Investment securities, available-for-sale				
U.S. Treasury securities	$319,623	$ —	$319,623	$ —
U.S. government sponsored entities and agency securities	202,313	—	202,313	—
Municipal securities	5,185	—	5,185	—
Mortgage-backed securities – residential	69,055	—	69,055	—
Mortgage-backed securities – commercial	4,075	—	4,075	—
Collateralized mortgage obligations	19,484	—	19,484	—
Corporate debt securities	30,748	—	30,748	—
Asset-based securities	12,659	—	12,659	—
Total investment securities, available-for-sale	$663,142	$ —	$663,142	$ —
Derivatives – interest rate swaps	$112,357	$ —	$112,357	$ —
Derivatives – interest rate cap	$ 229	$ —	$ 229	$ —

Fair Value Measurements at December 31, 2022

	Carrying Value	Level 1	Level 2	Level 3
Assets:				
Investment securities, available-for-sale				
U.S. Treasury securities	$331,284	$ —	$331,284	$ —
U.S. government sponsored entities and agency securities	91,157	—	91,157	—
Municipal securities	5,362	—	5,362	—
Mortgage-backed securities – residential	77,886	—	77,886	—
Mortgage-backed securities – commercial	6,891	—	6,891	—
Collateralized mortgage obligations	21,907	—	21,907	—
Corporate debt securities	67,316	—	67,316	—
Asset-based securities	17,933	—	17,933	—
Total investment securities, available-for-sale	$619,736	$ —	$619,736	$ —
Derivatives – interest rate swaps	$134,605	$ —	$134,605	$ —
Derivatives – interest rate cap	$ 1,417	$ —	$ 1,417	$ —

There were no transfers between Level 1 and Level 2 during 2023 and 2022.

NOTE 9 – Fair Values Measurements (continued)

Assets Measured at Fair Value on a Non-Recurring Basis

There were no assets measured at fair value on a non-recurring basis as of December 31, 2023 or December 31, 2022.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2023 and December 31, 2022 are as follows (*dollars in thousands*):

	Fair Value Measurements at December 31, 2023 Using:				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 549,033	$ 549,033	$ —	$ —	$ 549,033
Loans, net	3,501,526	—	—	3,292,764	3,292,764
Accrued interest receivable	16,669	295	3,773	12,601	16,669
Financial liabilities					
Non-interest bearing demand deposits, money market accounts, NOW accounts and saving accounts	$3,448,087	$ —	$3,448,087	$ —	$3,448,087
Time deposits	872,590	—	871,938	—	871,938
Other borrowings	50,000	—	49,818	—	49,818
Accrued interest payable	7,161	—	7,161	—	7,161
Cash collateral held related to derivatives	114,940	114,940	—	—	114,940

NOTE 9 – Fair Values Measurements (continued)

Fair Value of Financial Instruments (continued)

	Fair Value Measurements at December 31, 2022 Using:				
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 146,591	$ 146,591	$ —	$ —	$ 146,591
Loans, net	3,043,841	—	—	2,846,360	2,846,360
Accrued interest receivable	12,063	299	2,056	9,708	12,063
Financial liabilities					
Non-interest bearing demand deposits, money market accounts, NOW accounts and saving accounts	$3,140,935	$ —	$3,140,935	$ —	$3,140,935
Time deposits	301,382	—	299,914	—	299,914
FHLB advances	100,000	—	100,016	—	100,016
Accrued interest payable	994	—	994	—	994
Cash collateral held related to derivatives	127,760	127,760	—	—	127,760

NOTE 10 – Commitments and Contingencies

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank enters into certain transactions, which involve financial instruments with off-balance-sheet risk. These instruments include commitments to extend credit and standby letters of credit and are not reflected in the accompanying consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk in excess of the amount, if any, recognized in the consolidated balance sheets. The Bank's off-balance-sheet credit risk exposure is the contractual amount of commitments to extend credit and standby letters of credit. At December 31, 2023, commitments to extend credit totaled $288,767,000 and standby letters of credit totaled $18,822,000. At December 31, 2022, commitments to extend credit totaled $306,180,000 and standby letters of credit totaled $21,413,000. The Bank applies the same credit standards to these contracts as it uses in its lending process. The fair values associated with commitments to extend credit and standby letters of credit were not material at December 31, 2023 and 2022.

Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Bank if certain conditions of the contract are violated. Although currently subject to drawdown, many of these commitments are expected to expire or terminate without funding. Therefore, the total commitment amounts do not necessarily represent future cash requirements. Collateral held relating to these commitments varies. For secured loans, it generally includes real estate, accounts receivable and personal property.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Bank upon default of performance. Collateral held for standby letters of credit is based on an individual evaluation of each customer's credit worthiness but may include real estate and cash.

Litigation

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of a loss is probable and an amount or range of loss can be reasonably estimated. The Bank is a defendant in legal actions arising in the ordinary course of business which, in the opinion of management, after consulting with legal counsel, are either adequately covered by insurance, should they result in any adverse judgments, or will not materially affect the consolidated financial position or results of operations of the Bank.

NOTE 11 – Regulatory Matters

Cash Reserve Requirements

The Board of Governors of the Federal Reserve System reduced reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions.

Dividend Limitations

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to shareholders. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described below. As of December 31, 2023, $146,725,000 of retained earnings is available to pay dividends, outside of other capital constraints.

Capital Guidelines

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Accumulated other comprehensive income (loss) is not included in computing regulatory capital. Management believes as of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank has a formal dividend policy, and dividends are issued solely at the discretion of the Bank's Board of Directors subject to compliance with regulatory requirements. There are certain regulatory limitations on the payment of cash dividends by banks as discussed above.

NOTE 11 – Regulatory Matters (continued)

Capital Guidelines (continued)

Presented below are the Bank's actual and required capital amounts and ratios as of December 31, 2023 and 2022 (*dollars in thousands*).

	Actual		Required for Capital Adequacy Purposes		Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Total Capital (to risk-weighted assets)	$457,741	13.2%	$278,101	8.0%	$347,626	10.0%
Tier 1 Capital (to risk-weighted assets)	$413,629	11.9%	$208,575	6.0%	$278,101	8.0%
Common Tier (CETI)	$413,629	11.9%	$156,432	4.5%	$225,957	6.5%
Tier 1 Capital (to average assets)	$413,629	8.2%	$200,998	4.0%	$251,247	5.0%

	Actual		Required for Capital Adequacy Purposes		Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total Capital (to risk-weighted assets)	$398,864	12.4%	$256,945	8.0%	$321,182	10.0%
Tier 1 Capital (to risk-weighted assets)	$358,172	11.2%	$192,532	6.0%	$256,945	8.0%
Common Tier (CETI)	$358,172	11.2%	$144,532	4.5%	$208,768	6.5%
Tier 1 Capital (to average assets)	$358,172	8.7%	$164,995	4.0%	$206,244	5.0%

NOTE 12 – Benefit Plans

Tax Deferred Investment Plan

The Bank participates in a trusteed tax deferred investment plan (the Plan). The Plan permits each eligible employee to contribute up to 100% of compensation on a pre-tax basis, to a maximum amount allowed by law per year. The Bank provides a matching contribution in the amount equal to 50% of the participant's salary deferrals, up to 10% of the participant's compensation. The Bank's Plan expense was $591,000, $506,000, and $444,000, for the years ended December 31, 2023, 2022 and 2021, respectively.

Supplemental Retirement Plan

The Bank has a Supplemental Retirement Plan that is a non-qualified salary continuation plan for certain senior officers of the Bank. Under the plan, the Bank has agreed to pay these officers retirement benefits for a fifteen-year period after their retirement so long as they meet certain length of service vesting requirements. A liability is accrued for the obligation under this plan and it is unsecured and unfunded. Supplemental Retirement Plan (income) totaled $(100,000), $(550,000), and $(247,000) for the years ended December 31, 2023, 2022 and 2021, respectively, resulting in a liability of $2,706,000 and $3,378,000 as of year-end 2023 and 2022. The discount rates used to value the plan liability at December 31, 2023 and 2022 were 5.70% and 5.16%, respectively. At December 31, 2023, and 2022, the plan had three and four participants, respectively. The Bank has purchased insurance on the lives of some of the participants as a cost recovery of the Bank's retirement obligations. The Bank records a liability for the post-employment benefit obligations under its split dollar life insurance arrangements. The accrued obligation was $426,000 and $407,000 as of December 31, 2023 and 2022, respectively.

NOTE 13 – Stock Based Compensation

Stock Option Plan

The Bank has a Non-Qualified Stock Option Plan (the Option Plan), whereby officers or directors of the Bank may be awarded stock options. There were 200,000 shares authorized for grant under the Option Plan. As of December 31, 2023 and 2022, there remained 200,000 shares available for grant. Option awards are granted with an exercise price equal to the market price of the Bank's common stock at the date of grant and have contractual terms which ranged from 5 to 10 years. The fair value of each option award is estimated on the date of grant using a Black-Scholes model. There were no options granted during the years ended December 31, 2023, 2022 and 2021, as the Option Plan is currently dormant.

Restricted Stock Plan

The Bank has a Restricted Stock Plan ("RSP") to provide for the issuance of Bank shares to selected key employees and directors. The stock to be awarded under the RSP shall consist of shares of the Bank's common stock and may be authorized but unissued shares or reacquired shares, or both. Owners of the stock awards shall have all of the rights of a shareholder including the right to vote the shares and to all dividends, cash or stock. Compensation expense will be recognized over the vesting period of the awards based on the fair value of the stock at issue date. Fair value of the stock at issue date is determined the most recent trading information. RSP shares vest in 20% increments on each anniversary date and fully vest on the fifth anniversary of the grant date. Certain employees and directors' RSP awards vest over a shorter period of time due to their retirement date, presumed to be 65 years old in the RSP. Commencing in 2023, for directors under the age of 65 years old, RSP awards will vest over one year. An aggregate of 200,000 shares of the Bank's common stock has been authorized and available for awards under the plan as of December 31, 2023. Total shares issuable under the plan and authorized for awards are 72,990 and 82,513 at December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, 12,153 and 9,070 shares were granted, respectively.

A summary of changes in the Bank's non-vested shares for the year follows:

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2023	24,671	$209.98
Granted	12,153	$225.10
Vested	(12,579)	$203.80
Forfeited	(2,334)	$219.09
Non-vested at December 31, 2023	21,911	$220.95

Total stock compensation cost related to the RSP recorded in the Consolidated Statements of Operations for 2023, 2022 and 2021 was $1,753,000, $2,319,000, and $1,915,000, respectively. In addition to the 2023 stock compensation cost, the Bank has accrued $557,000 of incentive compensation as of December 31, 2023 that will be paid in common stock in February 2024. As of December 31, 2023 and 2022, there was $3,818,000 and $3,363,000, respectively, of total unrecognized compensation cost related to non-vested shares granted under the RSP. As of December 31, 2023, the total unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.6 years. The total fair value of shares vested during the years ended December 31, 2023, 2022 and 2021 was $2,373,000, $2,046,000, and $1,516,000.

NOTE 13 – Stock Based Compensation (continued)

Restricted Stock Plan (continued)

Restricted stock granted to employees may be net settled in a cashless exercise by a reduction in the number of shares otherwise deliverable upon vesting in satisfaction of the applicable tax withholding requirements. During the year ended December 31, 2023, the Bank withheld 296 shares totaling $56,000 for cashless exercises. Shares withheld under net settlement arrangements are available for future grants.

NOTE 14 – Related Party Transactions

The Bank, in the ordinary course of business, has had loan and deposit transactions with certain directors, officers, principal shareholders and their related entities. As of December 31, 2023 and 2022, there were $368,000 and $376,000, respectively, in loans outstanding and $250,000 and $0, respectively, of undisbursed commitments to directors, officers and their related entities. Deposits from certain directors, senior officers, principal shareholders and their related entities were $1,136,000 and $3,420,000 as of December 31, 2023 and 2022, respectively.

NOTE 15 – Derivatives

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

Interest Rate Swaps Designated as Fair Value Hedges – Interest rate swap agreements were commenced in order to hedge interest rate risk related to the loan portfolio. For each existing interest rate swap agreement, the Bank will pay a fixed rate and receive a variable rate of the Secured Overnight Financing Rate (SOFR). At December 31, 2023 and 2022, summary information of the interest rate swaps designated as fair value hedges is as follows (*dollars in thousands*):

	2023	**2022**
Current notional amount:	$1,595,000	$1,116,000
Weighted average pay rates:	2.25%	1.79%
Weighted average receive rates:	5.34%	3.95%
Weighted average maturity:	5.7 years	6.1 years
Fair value of interest rate swap:	$ 85,987	$ 103,378

The fair values of the interest rate swaps at December 31, 2023 and 2022 are reflected on the Consolidated Balance Sheets as “Derivatives.” As of December 31, 2023 and 2022, the fair value adjustment of the hedged item was $(80,519,000) and $(103,652,000), respectively, reflected in net loans. As of December 31, 2023 and 2022, the amortized cost basis of the closed portfolios used in these hedging relationships was $2,593,823,000 and $1,974,240,000. As of December 31, 2023 and 2022, the amount that represents the hedged items or the designated portfolio layer, was $1,753,945,000 and $1,329,939,000. All but one hedge were determined to be effective during all the periods presented. During 2021, due to some uncertainties within one of the closed loan pools, a hedge with a notional amount of $50,000,000 and a mark to market liability of $374,000 was de-designated. The loans in the closed loan pool were adjusted with the offsetting amount on a pro rata basis. The increase in the balance of these loans will be amortized on the level-yield basis over the remaining life of the loans. A new closed loan portfolio was designated as a hedge for this swap. As of December 31, 2023, the Bank expects the fair value hedges to remain effective during the remaining terms of the swaps.

As of December 31, 2023, the Bank has three fair value hedges which were designated as fair value hedges with a non-zero interest rate swap value at the date of designation. These swaps were entered into as an economic hedge, however, at the time of inception, the Bank did not have sufficient closed pools of loans to designate to these swaps. As such, at the time of designation, these swaps had a gain of $5,919,000, which was recognized as non-interest income in 2023. This gain will be systematically reversed through the Consolidated Statement of Operations as a component of net interest income over the remaining live of these swaps.

NOTE 15 – Derivatives (continued)

The following table reflects the fair value hedges included in the Consolidated Statement of Operations as of December 31, 2023 and 2022 (*dollars in thousands*):

Interest rate contracts	Location	2023	2022	2021
Change in fair value on interest rate swaps	Net interest income	$(23,309)	$105,560	$ 11,616
Change in fair value of pool of loans – hedged items	Net interest income	$ 23,133	$(105,466)	$(11,836)

Interest Rate Swaps Designated as Cash Flow Hedges – As of April 1, 2022, the Bank designated certain interest rate swap agreements as cash flow hedges of certain index-based public deposits. These deposits totaled $237,425,000 as of December 31, 2022 and were included in Money Market and NOW Accounts. These swaps were commenced in order to hedge interest rate risk related to the index-based public deposits. As of January 1, 2022, the Bank had a notional amount $100,000,000 that had not previously qualified as hedges for accounting purposes; these swaps and swaps with an additional notional amount of $120,000,000 entered in 2022, were designated as cash flow hedges throughout the year.

These swaps were determined to be effective since the date of designation. Therefore, the fair value of the swaps was recorded in other assets with changes in fair value recorded in other comprehensive income (loss). For these interest rate swap agreements, the Bank will pay a fixed rate and receive a variable rate of one month LIBOR or SOFR. At December 31, 2022, summary information of the interest rate swaps designated as cash flow hedges is as follows (*dollars in thousands*):

	2022
Current notional amount:	$ 217,968
Weighted average pay rates:	1.38%
Weighted average receive rates:	4.04%
Weighted average maturity:	8.1 years
Fair value of interest rate swaps:	$ 31,227

As of December 31, 2022, the Bank expected the hedges to remain effective during the remaining terms of the swaps, however, during the first quarter of 2023, the relationship between the benchmark interest rate of the swaps and public deposit index was no longer deemed to be highly correlated. As such, the hedged relationship determined to no longer be effective and these swaps were treated as undesignated hedges for all of 2023. Related to these swaps, as of December 31, 2023 and 2022, there were balances of $12,231,000 and $13,162,000, respectively, included in accumulated other comprehensive income. This amount will be recorded into earnings over the remaining life of the swaps, which has a weighted average maturity of 7.1 years.

NOTE 15 – Derivatives (continued)

Interest Rate Swaps Not Designated As Hedges – During 2023, as noted above, certain interest rate swaps ceased to qualify as cash flow hedges for accounting purposes and were therefore reclassified as swaps not designated as hedges. Additionally, the Bank also entered into interest rate swap agreements in order to hedge interest rate risk related to the loan portfolio, but they did not qualify as hedges for accounting purposes at swap inception. Therefore, changes in fair value were reported in the Consolidated Statement of Operations, as a component of non-interest income; this was a gain of $1,061,000 for the year ended December 31, 2023. For these interest rate swap agreements, the Bank paid a fixed rate and received a variable rate of SOFR. At December 31, 2023, summary information of the interest rate swaps not designated as hedges is as follows (*dollars in thousands*):

	2023
Current notional amount:	$ 258,667
Weighted average pay rates:	1.74%
Weighted average receive rates:	5.34%
Weighted average maturity:	6.9 years
Fair value of interest rate swaps:	$ 26,360

The fair value of the interest rate swaps not designated as hedges at December 31, 2023 is reflected on the Consolidated Balance Sheets as "Derivatives" and the corresponding change to income recorded in non-interest income.

Interest Rate Caps Not Designated As Hedges – During 2020, the Bank purchased one interest rate cap with a notional amount of $70,000,000 in order to hedge interest rate risk related to the loan portfolio.

At December 31, 2023 and 2022, summary information of the interest rate caps is as follows (*dollars in thousands*):

	2023	**2022**
Notional amount:	$ 70,000	$ 70,000
Weighted average original maturity:	4 years	4 years
Weighted average remaining maturity:	0.1 years	1.1 years
Cap rates:	3.13%	3.13%
Fair value of interest rate caps:	$ 229	$ 1,417
Unrealized gain position:	$ 227	$ 1,397
Amount of (loss) gain recognized into earnings:	$ (1,170)	$ 1,359

NOTE 16 – Earnings per Common Share (EPS)

The following reconciles the numerator and denominator used in the calculation of both the basic and diluted earnings per common share (*dollars in thousands except for per share amounts*):

	Years Ended December 31, 2023	2022	2021
Basic EPS Calculation			
Net income available to common shareholders	$ 60,337	$ 47,823	$ 44,475
Weighted average common stock outstanding	1,467,741	1,459,600	1,449,906
Add: Participating securities	22,250	24,455	25,684
Weighted average shares outstanding for basic EPS	1,489,991	1,484,055	1,475,590
Basic EPS	$ 40.49	$ 32.22	$ 30.14
Diluted EPS Calculation			
Net income available to common shareholders plus assumed conversions	$ 60,337	$ 47,823	$ 44,475
Weighted average shares outstanding for diluted EPS	1,489,991	1,484,055	1,475,590
Diluted EPS	$ 40.49	$ 32.22	$ 30.14

River City Bank