RIVER VALLEY
COMMUNITY BANCORP

Yuba City, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

April 12, 2023

To Our Shareholders,

Accompanying this letter, you will find the 2022 Consolidated Financial Statements for River Valley Community Bancorp and its wholly owned subsidiary, River Valley Community Bank (collectively referred to as the "Company"). Along with this report, we are providing additional context for you regarding the Company's continued growth and development.

The following highlights many of the Bank's achievements in 2022:

- Total Assets ended 2022 at $630.3 million which is a 4.9% increase from the end of 2021.

- The Bank achieved record after tax Net Income for 2022 of $6.9 million, or $2.18 per diluted share, which is an increase of 26.0% from 2021. The Bank's increased earnings during 2022 were driven primarily by higher interest income generated by our earning assets as yields increased with market rates during the year.

- Our core Loan portfolio (excluding PPP) increased to $258.1 million at year end reflecting growth of 4.6% from 12/31/2021.

    - The Bank opened its Reno loan production office in early 2022 which got off to a solid start in contributing to the bank's loan growth during the year.

- The Bank's Total Deposits ended 2022 at $591.4 million which were up 7.9% from 12/31/2021. Notably, demand deposit accounts represented 59.7% of the total which was up slightly from 59.2% at 12/31/2021. Demand deposits help keep our cost of funds low and are a good reflection of the relationships we have with our customers. At 12/31/2022, the Bank's proportion of demand deposits ranked in the 97th percentile in our Federal Financial Institutions Examination Council (FFIEC) Uniform Bank Performance Report (UBPR) peer grouping of 1,293 peer banks.

During 2022, the Federal Reserve's Open Market Committee pushed interest rates significantly higher in reaction to their changed view that inflation was more than "transitory". Between March of 2022 and March of this year, the Fed pushed the interest rate on Fed Funds up by 4.50% from essentially zero. The magnitude of this rate increase over this short period is unprecedented and while the Bank's earnings benefitted from the increase in 2022, this abrupt change in the Fed's interest rate policy caused dislocation in the banking industry which led to the highly publicized failures of Silicon Valley Bank and Signature Bank in March of this year, and concern with several other regional banks. The banks that failed appear to have had riskier banking models, including highly concentrated deposit bases and apparent risk management missteps which left them negatively exposed to increasing interest rates. Subsequently, they experienced significant liquidity challenges leading to their seizure by regulators as they were unable to meet the withdrawal requests of their concentrated and highly connected depositors.

In our nearly 17 years of operation, our Bank has developed a reputation for comprehensive and conservative risk management practices. This includes not only managing credit risk in a sustainable manner, but also focusing considerable time and expertise ensuring our balance sheet is adequately positioned from an interest rate and liquidity risk perspective. Further, we believe our diversified deposit base is a risk mitigant which reflects business deposit accounts representing many industries, local non-profits, public agencies, and personal accounts. Another risk mitigant we enjoy are the strong, communicative, relationships we have with our clients and our size provides direct access to management. We appreciate interacting with our customers and welcome the opportunity to discuss the Bank's positioning, which goes a long way in reassuring all parties.

With the recent bank failures, liquidity positioning has been the primary focus on banks. We believe our bank is well positioned in this regard. The bank has ready access to liquidity, both on balance sheet and off, and our loan to deposit ratio is less than 50%. Our investment securities portfolio is comprised of high-quality investment grade securities which are performing as intended and the duration of our portfolio is relatively short. This portfolio, in addition to the bank's cash on hand, represents a highly liquid potential source of funds if needed. In addition, the bank has considerable off-balance sheet liquidity in the form of credit lines that remain untapped but available for use if needed.

In addition, the bank remains well capitalized with capital levels well above regulatory minimum requirements. Our strong earnings have, and we expect will continue, to enhance our capital levels.

Banking is a business of confidence, and we are very proud of the reputation we have built. We appreciate the "steady hand" our customers have shown during the recent industry events, and we see this as a reflection of their confidence in the bank we have established.

Our reputation matters. We pride ourselves on the relationships we've built with clients that share our philosophy, and who are as invested in our communities as we are. We manage our bank sustainably for the long-run and find considerable satisfaction in serving our communities in ways bigger banks do not. We have a professional and highly committed banking team that is only getting better as we grow and develop. We believe our Bank is well positioned to meet our customer needs during these times and we also believe we are ready for market opportunities that can emerge during periods of uncertainty.

Thank you for your continued interest in and support of River Valley Community Bank!

Sincerely,

John M Jelavich
President & CEO

Stephen F Danna
Chairman of the Board

Forward Looking Statements: This document may contain comments and information that constitute forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Forward-looking statements speak only as to the date they are made. The Bank does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
River Valley Community Bancorp
Yuba City, California

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of River Valley Community Bancorp and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2021 were audited by another auditor, who, expressed an unmodified opinion on those consolidated financial statements on March 14, 2022.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America;

and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

Eide Bailly LLP

San Ramon, California
March 21, 2023

River Valley Community Bancorp
Consolidated Balance Sheets
Years Ended December 31, 2022 and 2021

	2022	2021
Assets		
Cash and noninterest bearing due from banks	$ 6,755,238	$ 5,785,829
Interest bearing deposits in banks	83,616,839	95,234,148
Total cash and cash equivalents	90,372,077	101,019,977
Time deposits in banks	1,987,000	1,738,000
Debt securities available-for-sale	253,188,077	227,775,493
Loans, net of allowance for loan losses of $3,512,755, at 2022 and 2021	253,890,382	246,515,703
Premises and equipment, net	6,460,325	6,727,472
Cash surrender value of life insurance	10,479,948	10,218,814
Accrued interest receivable and other assets	13,898,204	6,853,777
Total assets	$ 630,276,013	$ 600,849,236
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits - noninterest bearing	$ 242,417,018	$ 230,822,247
Demand deposits - interest bearing	110,793,179	93,637,724
Money market and savings deposits	220,147,749	200,361,019
Time deposits - under $250,000	11,104,529	11,991,854
Time deposits - $250,000 or more	6,895,186	11,206,712
Total deposits	591,357,661	548,019,556
Accrued interest payable and other liabilities	2,298,512	3,402,054
Total liabilities	593,656,173	551,421,610
Shareholders' equity:		
Preferred stock – no par value; 5,000,000 shares authorized; no shares outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; 3,084,911 and 3,032,582 shares issued and outstanding in 2022 and 2021, respectively	17,426,374	16,766,016
Retained earnings	35,882,252	29,024,216
Accumulated other comprehensive (loss) income	(16,688,786)	3,637,394
Total shareholders' equity	36,619,840	49,427,626
Total liabilities and shareholders' equity	$ 630,276,013	$ 600,849,236

River Valley Community Bancorp
Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
Interest income:		
Interest and fees on loans	$ 11,622,064	$ 12,480,075
Interest on taxable debt securities	5,392,682	2,957,982
Interest on debt securities exempt from Federal taxes	913,364	893,441
Interest on deposits in banks and other	1,507,254	193,645
Total interest income	19,435,364	16,525,143
Interest expense:		
Interest on demand deposits	100,436	69,146
Interest on money market and savings deposits	830,118	400,806
Interest on time deposits	109,266	147,484
Total interest expense	1,039,820	617,436
Net interest income	18,395,544	15,907,707
Provision for loan losses	-	151,000
Net interest income after provision for loan losses	18,395,544	15,756,707
Noninterest income:		
Service charges and fees	461,706	398,036
Earnings on cash surrender value of life insurance	261,134	147,880
Gain on sales and calls of investment securities, net	497	90,971
Other	163,636	218,507
Total noninterest income	886,973	855,394
Noninterest expense:		
Salaries and employee benefits	6,117,379	5,583,229
Occupancy and equipment	865,330	954,369
Data processing and information technology	681,299	704,819
Directors' expense	418,055	422,920
Professional fees	394,527	390,865
Insurance and assessments	268,975	195,688
Other	1,129,006	1,016,086
Total noninterest expense	9,874,571	9,267,976
Income before income tax expense	9,407,946	7,344,126
Income tax expense	2,549,910	1,994,417
Net income	$ 6,858,036	$ 5,349,708
Earnings per share - basic	$ 2.24	$ 1.77
Earnings per share - diluted	$ 2.18	$ 1.73

River Valley Community Bancorp
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 6,858,036	$ 5,349,708
Other comprehensive income (loss):		
Investment securities available-for-sale:		
Unrealized losses arising during the year	(28,855,522)	(4,517,094)
Reclassification adjustments for net gains in earnings	(497)	(90,971)
Income tax benefit	8,529,839	1,362,144
Total other comprehensive loss	(20,326,180)	(3,245,921)
Total comprehensive income (loss)	$ (13,468,144)	$ 2,103,787

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

	Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Earnings	Income (Loss)	Equity
Balance, January 1, 2021	2,984,182	$ 16,223,734	$ 23,674,508	$ 6,883,315	$ 46,781,557
Net income	-	-	5,349,708	-	5,349,708
Other comprehensive loss	-	-	-	(3,245,921)	(3,245,921)
Stock compensation expense	-	276,768	-	-	276,768
Stock options exercised	46,938	373,514	-	-	373,514
Restricted stock units vested	7,161	-	-	-	-
Stock repurchases	(5,699)	(108,000)	-	-	(108,000)
Balance, December 31, 2021	3,032,582	16,766,016	29,024,216	3,637,394	49,427,626
Net income	-	-	6,858,036	-	6,858,036
Other comprehensive loss	-	-	-	(20,326,180)	(20,326,180)
Stock compensation expense	-	307,345	-	-	307,345
Stock options exercised	43,174	378,508	-	-	378,508
Shares withheld related to net share settlement of stock options	(1,209)	(25,495)			(25,495)
Restricted stock units vested	10,364	-	-	-	-
Balance, December 31, 2022	3,084,911	$ 17,426,374	$ 35,882,252	$ (16,688,786)	$ 36,619,840

River Valley Community Bancorp
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	$ 6,858,036	$ 5,349,708
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	-	151,000
Depreciation, amortization, and accretion, net	851,990	1,142,609
Earnings on cash surrender value of life insurance	(261,134)	(147,879)
Gain on sales and calls of investment securities, net	(497)	(90,971)
Change in deferred loan fees, net	35,309	(785,469)
Deferred income tax expense (benefit)	83,154	(88,332)
Stock compensation expense	307,345	276,768
Change in accrued interest receivable and other assets	1,402,258	408,909
Change in accrued interest payable and other liabilities	(1,103,542)	(1,071,960)
Net cash from operating activities	8,172,919	5,144,383
Cash flows from investing activities:		
(Purchases) maturities of time deposits in banks	(249,000)	(498,000)
Debt securities available-for-sale:		
Purchases	(84,088,882)	(76,127,745)
Maturities and calls	19,565,000	3,084,894
Principal payments	9,726,119	7,785,764
Sales	-	1,180,000
Change in loans, net	(7,409,988)	8,389,414
Purchases of premises and equipment	(55,186)	(28,777)
Purchase of bank owned life insurance	-	(4,000,000)
Net cash used in investing activities	(62,511,937)	(60,214,450)
Cash flows from financing activities:		
Change in non-time deposits, net	48,536,956	106,994,062
Change in time deposits, net	(5,198,851)	(4,136,575)
Stock repurchases	-	(108,000)
Shares withheld related to net share settlement of stock options	(25,495)	-
Stock options exercised	378,508	373,514
Net cash from financing activities	43,691,118	103,123,001
Change in cash and cash equivalents	(10,647,900)	48,052,934
Cash and cash equivalents, beginning of year	101,019,977	52,967,043
Cash and cash equivalents, end of year	$ 90,372,077	$ 101,019,977
Supplemental cash flow disclosures:		
Supplemental disclosure of non-cash activities:		
Right of use asset acquired in exchange for an operating lease liability	$ -	$ 68,880
Supplemental disclosure of cash flow activities:		
Interest paid	$ 1,031,075	$ 641,165
Income taxes paid	2,130,000	2,335,000

Note 1. Summary of Significant Accounting Policies

General – On February 9, 2017, River Valley Community Bancorp (the “Bancorp”) was formed as a California corporation and subsequently became the sole shareholder of River Valley Community Bank (the “Bank”). The Bancorp and the Bank are collectively referred to as the “Company”, and they share a common board of directors and certain executive officers. The Bank was approved as a state-chartered, non-member bank on December 27, 2005 and is subject to regulation by the California Department of Financial Protection and Innovation (the "DFPI") and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits. The Company is headquartered in Yuba City, California with branches in Yuba City, Grass Valley, Auburn, and Marysville, California. The Company also operates a loan production office in Reno, Nevada. The Company provides financial products and services to small to middle-market businesses and professionals located in Sutter, Yuba, Nevada, Placer, Washoe and surrounding counties.

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

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany transactions, profits and balances have been eliminated. The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). As of December 31, 2022, the Company had one wholly-owned subsidiary.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents – Cash and cash equivalents consist of cash on hand, due from banks, and interest bearing deposits in banks that are due on demand.

Time deposits in banks – Time deposits in banks have original maturities exceeding ninety days, have remaining maturities through July 2024, and are carried at cost. Time deposits in banks are fully insured up to the FDIC legal limits.

Debt securities – Debt securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income. Gains or losses on the sale of debt securities are computed on the specific identification method at the trade date. Interest earned on debt securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

A debt security is impaired when its amortized cost is greater than its fair value. Debt securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the debt securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value is not necessarily favorable or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the debt security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income (loss). If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Loans – Loans are stated at principal balances outstanding, net of deferred loan fees and costs and an allowance for loan losses. Loans are grouped into four portfolio segments: (1) real estate loans, (2) agriculture production loans, (3) commercial and industrial loans, and (4) consumer loans. The real estate loan segment is further disaggregated into five classes: (1) construction and development, (2) agriculture, (3) 1-4 family residential, (4) multifamily, and (5) commercial. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered impaired and the future collectability of interest and principal is in doubt, loans are placed on nonaccrual status, and the accrual of interest income is suspended. Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan without anticipating prepayments.

Allowance for loan losses – The allowance for loan losses is an estimate of probable credit losses in the Company's loan portfolio that have been incurred as of the balance sheet date. The allowance is established through a provision for loan losses, which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are collectively evaluated for impairment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the operation or sale of the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk, as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment and class, internal asset classifications, and qualitative factors to include economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Company determines a separate allowance for each portfolio segment and class. The allowance for loan losses attributable to each portfolio segment and class, which includes both impaired loans and loans that are collectively evaluated for impairment, is combined to determine the Company's overall allowance.

The Company assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate, and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for each class of loan: (1) inherent credit risk, (2) historical losses, and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each segment described below.

Real estate loans – In general, real estate loans are underwritten to ensure the real estate collateral provides an adequate secondary source of repayment in the event of borrower nonperformance. However, downward trends in real estate property values after loan origination can threaten the Company's ability to liquidate collateral at amounts sufficient to extinguish the debt without incurring a loss. Certain real estate loan classes present a higher inherent risk of loss, including construction and development and commercial. Construction and development projects may not be completed within specified cost and timelines, which may impact the ability to service debt obligations. Commercial real estate loans are impacted by trends in vacancy rates on commercial properties. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flows to service debt obligations.

Agriculture production loans – Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of the Company and borrowers: commodity prices and weather conditions, including drought conditions that threaten borrowers' ability to obtain adequate water for their crops.

Commercial and industrial loans – Commercial and industrial loans generally possess a lower inherent risk of loss than the real estate portfolio segment because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates, and other key indicators are closely correlated to the credit quality of these loans.

Consumer loans – Loans made to individuals to provide personal purchases for household and equipment items are impacted by trends in unemployment and income levels. General economic activity and concentrations in various job markets could adversely impact this segment given the loss or relocation of a major employer.

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

Allowance for credit losses on off-balance sheet credit exposures – The Company also maintains a separate allowance for off-balance sheet commitments to extend credit. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for commitments to extend credit is included in accrued interest payable and other liabilities on the balance sheet and is not significant.

Premises and equipment – Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be 15 to 39 years. The useful lives of furniture, fixtures, and equipment are estimated to be 3 to 10 years. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for financial impairment, as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Leases – The Company enters into leases in the normal course of business. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the consolidated balance sheet. Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right of use assets represent the Company's right to use an underlying asset for the lease term and are included in accrued interest receivable and other assets on the consolidated balance sheet. Lease liabilities represent the Company's obligation to make lease payments arising from the lease and are included in accrued interest payable and other liabilities on the consolidated balance sheet. Right of use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term, discounted using the Company's incremental borrowing rate.

Cash surrender value of life insurance – The Company maintains life insurance policies on certain key executives. Life insurance is recorded at the amounts 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 Company also maintains split dollar life insurance agreements with certain employees, whereby the employees' designated beneficiaries will receive a portion of life insurance benefits upon the employees' death while employed by the Company. As the benefits do not extend beyond employment, a liability has not been recorded by the Company.

Federal Home Loan Bank (FHLB) stock – The Company 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 included in accrued interest receivable and other assets on the balance sheet and is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Derivatives – The Company has entered into interest rate swap agreements to mitigate the interest rate risk created by interest rate floors and caps embedded in certain variable rate loans. The terms of interest rate swap agreements are matched to those of the individual loans with floors and caps being hedged. The interest rate swaps are adjusted to fair value on a recurring basis with an offsetting change in fair value of the derivative created by the floors and caps. Net cash settlements related to the interest rate swaps are reported in interest income. Cash flows on derivatives are classified in the cash flow statement similar to the cash flows of the underlying loans.

Income taxes – The Company files consolidated income tax returns. Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company uses a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. 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. Interest and penalties associated with unrecognized tax benefits are classified as income tax expense in the consolidated statements of income.

Earnings per share – Basic earnings per share (EPS), which excludes dilution, is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock, which shares in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted earnings per share.

Stock compensation – Compensation cost is recognized for stock options and restricted stock issued to employees and directors based on their grant date fair value. A Black-Scholes model is utilized to estimate the grant date fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award, which is generally five years.

Comprehensive income (loss) – Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of equity.

Loss contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the Company’s financial position or results of operations.

Retirement plans – Employee 401(k) expense is the amount of matching contributions provided by the Company.

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

The Company uses the following methods and significant assumptions to estimate fair value:

Cash and cash equivalents – The carrying amounts of cash and short-term instruments approximate fair values, resulting in a Level 1 classification.

Time deposits in banks – Fair values for time deposits in banks are estimated using a discounted cash flows calculation that applies interest rates currently being offered on instruments with similar remaining maturities, resulting in a Level 2 classification.

Debt securities – Fair values for debt securities are calculated based on market prices of similar securities, using matrix pricing, resulting in a Level 2 classification. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded and values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans – The fair value disclosed for loans is determined using the exit price notion. The Company uses a net present value of cash flows methodology that seeks to incorporate interest rate, credit, liquidity, and prepayment risks in the fair value estimation. Inputs to the calculation include market rates for similarly offered products, market interest rate projections, estimated credit losses, and prepayment assumptions, resulting in a Level 3 classification.

FHLB stock – Management determined that it is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Deposits – The fair values disclosed for demand deposits, including interest and noninterest bearing checking, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date, resulting in a Level 1 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flows calculation that applies interest rates currently being offered on instruments with similar remaining maturities, resulting in a Level 2 classification.

Accrued interest receivable and payable – The carrying amounts of accrued interest approximate fair value, resulting in a Level 2 classification.

Derivatives – The fair values of derivatives are based on valuation models using observable market data as of the measurement date, resulting in a Level 2 classification.

Subsequent events – Management reviewed all events occurring from December 31, 2022 through March 21, 2023, the date the financial statements were available to be issued.

Note 2. Debt Securities Available-for-Sale

The amortized cost and estimated fair value of debt securities available-for-sale as of December 31, 2022 and 2021 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022:				
Available-for-sale				
U.S Government-sponsored entities and agencies	$ 48,043,339	$ 465	$ (819,099)	$ 47,224,705
Obligations of states and political subdivisions	98,713,248	57,124	(13,695,411)	85,074,961
U.S. Government sponsored agencies collateralized by mortgage obligations	72,486,464	-	(6,725,609)	65,760,855
U.S. Government sponsored agencies mortgage-backed securities	8,753,890	12,976	(651,013)	8,115,853
Corporate debt securities	17,933,825	25,629	(838,966)	17,120,488
Student loan backed securities	30,949,512	-	(1,058,297)	29,891,215
Total	$ 276,880,278	$ 96,194	$ (23,788,395)	$ 253,188,077
December 31, 2021:				
Available-for-sale				
Obligations of states and political subdivisions	$ 83,440,705	$ 3,027,391	$ (1,064,108)	$ 85,403,988
U.S. Government sponsored agencies collateralized by mortgage obligations	67,361,964	2,818,226	(151,082)	70,029,108
U.S. Government sponsored agencies mortgage-backed securities	7,503,830	312,415	-	7,816,245
Corporate debt securities	32,133,212	211,286	(73,308)	32,271,190
Student loan backed securities	32,171,964	132,839	(49,841)	32,254,962
Total	$ 222,611,675	$ 6,502,157	$ (1,338,339)	$ 227,775,493

The following table summarizes securities with unrealized losses as of December 31, 2022 and 2021, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2022:						
Available-for-sale						
U.S Government-sponsored entities and agencies	$ 44,985,455	$ (819,099)	$ -	$ -	$ 44,985,455	$ (819,099)
Obligations of states and political subdivisions	46,022,707	(4,659,291)	34,113,317	(9,036,120)	80,136,024	(13,695,411)
U.S. Government sponsored agencies collateralized by mortgage obligations	52,429,821	(4,946,845)	13,331,034	(1,778,764)	65,760,855	(6,725,609)
U.S. Government sponsored agencies mortgage-backed securities	6,900,289	(651,013)	-	-	6,900,289	(651,013)
Corporate debt securities	4,168,020	(375,896)	5,960,608	(463,070)	10,128,628	(838,966)
Student loan backed securities	22,640,300	(657,154)	7,250,915	(401,143)	29,891,215	(1,058,297)
Total	$ 177,146,592	$ (12,109,298)	$ 60,655,874	$ (11,679,097)	$ 237,802,466	$ (23,788,395)
December 31, 2021:						
Available-for-sale						
Obligations of states and political subdivisions	$ 42,816,792	$ (1,064,108)	$ -	$ -	$ 42,816,792	$ (1,064,108)
U.S. Government sponsored agencies collateralized by mortgage obligations	16,598,406	(151,082)	-	-	16,598,406	(151,082)
U.S. Government sponsored agencies mortgage-backed securities	-	-	-	-	-	-
Corporate debt securities	5,723,451	(34,427)	866,760	(38,881)	6,590,211	(73,308)
Student loan backed securities	15,845,740	(49,841)	-	-	15,845,740	(49,841)
Total	$ 80,984,389	$ (1,299,458)	$ 866,760	$ (38,881)	$ 81,851,149	$ (1,338,339)

As of December 31, 2022, the Company's security portfolio consisted of 231 securities that were in an unrealized loss position, 79 of which had been in a loss position for greater than 12 months. Unrealized losses for all securities, in a loss position greater than 12 months, have not been recognized into income because the issuers' bonds are of high credit quality (investment grade or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

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

	Amortized Cost	Estimated Fair Value
Within one year	$ 11,868,502	$ 11,789,220
After one year through five years	60,650,889	58,650,197
After five years through ten years	47,155,713	39,228,023
After ten years	45,015,308	39,752,714
	164,690,412	149,420,154
Investment securities not due at a single maturity date:		
U.S. Government sponsored agencies collateralized by mortgage obligations and mortgage-backed securities	81,240,354	73,876,708
Student loan backed securities	30,949,512	29,891,215
Total	$ 276,880,278	$ 253,188,077

Note 3. Loans and the Allowance for Loan Losses

The following table presents the amortized costs of loans by class as of December 31, 2022 and 2021.

	2022	2021
Loans:		
Real estate:		
Construction and development	$ 6,317,831	$ 8,174,846
Agriculture	11,478,620	13,345,032
1-4 family residential	13,560,563	13,920,975
Multifamily	25,292,738	24,779,945
Commercial	180,753,058	162,663,377
Agriculture production	1,617,660	2,803,116
Commercial and industrial	18,996,290	24,939,529
Consumer	62,770	42,722
Total loans, gross	258,079,530	250,669,542
Deferred loan fees, net	(676,393)	(641,084)
Allowance for loan losses	(3,512,755)	(3,512,755)
Total loans, net	$ 253,890,382	$ 246,515,703

The Company participated in the SBA Paycheck Protection Program (PPP), during the COVID pandemic, which consisted of federally guaranteed loans intended to provide liquidity to small businesses to pay employees, rent, mortgage interest, and utilities. The loans could be forgiven upon certain conditions being met, including the business providing payroll documentation evidencing compliance with the program. The Company originated a total of $74,321,000 in PPP loans, and collected approximately $3,095,000 in related processing fees from the SBA during the course of the program which ended during the year ended December 31, 2021. Processing fees were deferred and were recognized as income over the original contractual life of the loan. Upon forgiveness, any remaining deferred processing fees were immediately recognized as income.

As of December 31, 2022, the Company had no PPP loans outstanding. As of December 31, 2021, the Company had approximately $3,939,000 in PPP loans outstanding, with related deferred processing fees of $174,000. During the years ended December 31, 2022, and 2021, approximately $3,939,000 and $59,187,000, respectively, of PPP loans were forgiven or paid in full and approximately $174,000, and $1,901,000, respectively, of processing fees were recognized as interest and fees on loans in the consolidated statements of income. PPP loans are included in the commercial and industrial loan class.

The recorded investment in loans excludes accrued interest receivable and deferred loan fees, net due to their immaterial balances. The following tables present the activity in the allowance for loan losses by class for the years ended December 31, 2022 and 2021 and the recorded investments in loans and ending balance in the allowance for loan losses by class as of December 31, 2022 and 2021:

	Real Estate								
	Construct. & Develop	Agriculture	1-4 Family Resident	Multifamily	Commercial	Agriculture Production	Commercial & Indust.	Consumer	Total
December 31, 2022:									
Allowance for Loan Losses:									
Balance, beginning of year	$ 186,093	$ 127,063	$ 97,048	$ 173,086	$ 2,313,156	$ 18,009	$ 598,299	$ 1	$ 3,512,755
Provision for loan losses	(28,182)	(1,753)	16,037	(16,194)	92,185	(8,840)	(53,252)	(1)	-
Loans charged off	-	-	-	-	-	-	-	-	-
Loans recovered	-	-	-	-	-	-	-	-	-
Total	$ 157,911	$ 125,310	$ 113,085	$ 156,892	$ 2,405,341	$ 9,169	$ 545,047	$ -	$ 3,512,755
December 31, 2021:									
Allowance for Loan Losses:									
Balance, beginning of year	$ 328,585	$ 126,611	$ 130,630	$ 132,640	$ 1,920,262	$ 25,121	$ 804,882	$ 1,005	$ 3,469,736
Provision for loan losses	(142,492)	452	(33,582)	40,446	392,894	(7,112)	(98,602)	(1,004)	151,000
Loans charged off	-	-	-	-	-	-	(107,981)	-	(107,981)
Loans recovered	-	-	-	-	-	-	-	-	-
Total	$ 186,093	$ 127,063	$ 97,048	$ 173,086	$ 2,313,156	$ 18,009	$ 598,299	$ 1	$ 3,512,755

	Real Estate								
	Construct. & Develop	Agriculture	1-4 Family Resident	Multifamily	Commercial	Agriculture Production	Commercial & Indust.	Consumer	Total
December 31, 2022:									
Loans:									
Individually evaluated for impairment	$ -	$ 896,274	$ -	$ -	$ -	$ -	$ -	$ -	$ 896,274
Collectively evaluated for impairment	6,317,831	10,582,346	13,560,563	25,292,738	180,753,058	1,617,660	18,996,290	62,770	257,183,256
Total	$ 6,317,831	$11,478,620	$13,560,563	$25,292,738	$180,753,058	$ 1,617,660	$18,996,290	$ 62,770	$258,079,530
Allowance for Loan Losses:									
Related to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Related to loans collectively evaluated for impairment	157,911	125,310	113,085	156,892	2,405,341	9,169	545,047	-	3,512,755
Total	$ 157,911	$ 125,310	$ 113,085	$ 156,892	$ 2,405,341	$ 9,169	$ 545,047	$ -	$ 3,512,755
December 31, 2021:									
Loans:									
Individually evaluated for impairment	$ 225,006	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 225,006
Collectively evaluated for impairment	7,949,840	13,345,032	13,920,975	24,779,945	162,663,377	2,803,116	24,939,529	42,722	250,444,536
Total	$ 8,174,846	$13,345,032	$13,920,975	$24,779,945	$162,663,377	$ 2,803,116	$24,939,529	$ 42,722	$250,669,542
Allowance for Loan Losses:									
Related to loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Related to loans collectively evaluated for impairment	186,093	127,063	97,048	173,086	2,313,156	18,009	598,299	1	3,512,755
Total	$ 186,093	$ 127,063	$ 97,048	$ 173,086	$ 2,313,156	$ 18,009	$ 598,299	$ 1	$ 3,512,755

The following table presents the loan portfolio by class allocated by management's internal risk ratings as of December 31, 2022 and 2021:

	Real Estate								
	Construct. & Develop	Agriculture	1-4 Family Resident	Multifamily	Commercial	Agriculture Production	Commercial & Indust.	Consumer	Total
December 31, 2022:									
Pass	$ 6,317,831	$10,582,346	$13,560,563	$25,292,738	$180,753,058	$ 1,617,660	$18,996,290	$ 62,770	$257,183,256
Substandard	-	896,274	-	-	-	-	-	-	896,274
Total	$ 6,317,831	$11,478,620	$13,560,563	$25,292,738	$180,753,058	$ 1,617,660	$18,996,290	$ 62,770	$258,079,530
December 31, 2021:									
Pass	$ 7,949,840	$13,322,150	$13,920,975	$24,779,945	$157,087,713	$ 2,803,116	$24,939,529	$ 42,722	$244,845,990
Substandard	225,006	22,882	-	-	5,575,664	-	-	-	5,823,552
Total	$ 8,174,846	$13,345,032	$13,920,975	$24,779,945	$162,663,377	$ 2,803,116	$24,939,529	$ 42,722	$250,669,542

The following table presents the loan portfolio by class allocated by the number of days past due and interest accrual status as of December 31, 2022 and 2021:

	Real Estate								
	Construct. & Develop	**Agriculture**	**1-4 Family Resident**	**Multifamily**	**Commercial**	**Agriculture Production**	**Commercial & Indust.**	**Consumer**	**Total**
December 31, 2022:									
Accruing interest:									
Current	$ 6,317,831	$10,582,346	$13,530,693	$25,292,738	$180,753,058	$ 1,617,660	$18,996,290	$ 62,770	$257,153,386
30 to 59 days past due	-	896,274	29,870	-	-	-	-	-	926,144
Not accruing interest	-	-	-	-	-	-	-	-	-
Total	$ 6,317,831	$11,478,620	$13,560,563	$25,292,738	$180,753,058	$ 1,617,660	$18,996,290	$ 62,770	$258,079,530
December 31, 2021:									
Accruing interest:									
Current	$ 7,949,840	$13,345,032	$13,920,975	$24,779,945	$161,662,713	$ 2,803,116	$24,939,529	$ 42,722	$249,443,872
30 to 59 days past due	-	-	-	-	1,000,664	-	-	-	1,000,664
Not accruing interest	225,006	-	-	-	-	-	-	-	225,006
Total	$ 8,174,846	$13,345,032	$13,920,975	$24,779,945	$162,663,377	$ 2,803,116	$24,939,529	$ 42,722	$250,669,542

The following table presents balances related to impaired loans by class as of and for the years ended December 31, 2022, and 2021:

	Real Estate			
	Construct. & Develop	Agriculture	Commercial	Total
December 31, 2022:				
Unpaid principal balance	$ -	$ 896,274	$ -	$ 896,274
Recorded investment:				
Without allowance	-	896,274	-	896,274
Average recorded investment	47,025	1,086,786	-	1,133,811
Interest income recognized	-	-	-	-
December 31, 2021:				
Unpaid principal balance	$ 225,006	$ -	$ -	$ 225,006
Recorded investment:				
Without allowance	225,006	-	-	225,006
Average recorded investment	230,222	-	393,651	623,873
Interest income recognized	10,637	-	34,750	45,387

No specific reserves were allocated to customers whose loan terms have been modified in TDRs as of December 31, 2022 and 2021. The Company has not committed to lend additional amounts as of December 31, 2022 and 2021 to customers with outstanding loans that are classified as TDRs. During the year ended December 31, 2022, there were no modifications that were determined to be TDRs. During the years ended December 31, 2022 and 2021, there were no defaults on loans previously classified as TDRs. 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 Company's underwriting policy. During the years ended December 31, 2022 and December 31, 2021, there were no loan payment deferrals granted.

Salaries and employee benefits totaling $178,543 and $244,851 have been deferred as direct loan origination costs for the years ended December 31, 2022 and 2021, respectively.

Note 4. Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Land	$ 1,723,198	$ 1,723,198
Buildings and improvements	5,449,918	5,453,918
Furniture, fixtures, and equipment	1,429,169	1,359,065
Leasehold improvements	42,722	42,722
In process	-	11,268
	8,645,007	8,590,171
Accumulated depreciation	(2,184,682)	(1,862,699)
Total	$ 6,460,325	$ 6,727,472

Depreciation included in occupancy and equipment expense totaled $322,333 and $419,330 for the years ended December 31, 2022 and 2021, respectively.

Note 5. Leases

The Company enters into leases for office space in the normal course of business. The Company's leases have remaining terms ranging from 2 to 5 years, one of which includes renewal options to extend the lease for up to two 5-year periods thereafter.

As of December 31, 2022, the Company has no finance leases and two operating leases for office locations. As of December 31, 2022 and 2021, the right of use asset included in "accrued interest receivable and other assets" totaled $891,750 and $979,925, respectively, and the lease liability included in "accrued interest payable and other liabilities" totaled $951,952 and $1,029,286, respectively. During the years ended December 31, 2022 and 2021, the Company recognized operating, short-term, and other variable lease costs totaling $151,638 and $108,303, respectively.

For the years ended December 31, 2022 and 2021, the weighted average remaining lease term, in years, is 9.98, and 10.85, respectively; and the weighted average discount rate was 3.07%, and 3.03%, respectively.

Future undiscounted lease payments are as follows for the years ending December 31:

2023	$ 111,536
2024	115,028
2025	94,766
2026	97,609
2027	100,537
Thereafter	592,438
Total undiscounted lease payments	1,111,914
Less imputed interest	159,962
Net lease liability	$ 951,952

Note 6. Time Deposits

Aggregate annual maturities of time deposits are as follows for the years ending December 31:

2023	$ 17,341,170
2024	496,306
2025	78,722
2026	67,566
2027	15,951
Total	$ 17,999,715

Note 7. Borrowing Facilities

The Company has unsecured Federal funds lines of credit with correspondent banks under which it can borrow up to $40,000,000 as of December 31, 2022. There were no borrowings outstanding under these arrangements as of December 31, 2022 and 2021.

In addition, the Company has an arrangement with the FHLB under which it may borrow up to 35% of total assets, which must be fully secured by qualifying assets. As of December 31, 2022 and 2021, the estimated fair value of investment securities pledged was approximately $71,404,000 and $71,615,000, respectively, and the recorded investment in loans pledged was approximately $218,682,000 and $208,548,000, respectively. As of December 31, 2022 and 2021, no borrowings were outstanding.

Additionally, the Company utilized the FHLB borrowing arrangement to obtain letters of credit totaling $28,000,000 and $21,000,000 as of December 31, 2022 and 2021, respectively, which are used to secure certain public fund deposit accounts. The combination of outstanding borrowings and outstanding letters of credit reduce the amount available to be borrowed. As of December 31, 2022 and 2021, the available borrowing capacity under this arrangement was approximately $150,781,000 and $138,097,000, respectively.

Note 8. Income Taxes

Income taxes for the years ended December 31, 2022 and 2021 consist of the following:

	2022	2021
Current	$ 2,466,756	$ 2,082,749
Deferred	83,154	(88,332)
Income tax expense	$ 2,549,910	$ 1,994,417

Deferred tax assets and liabilities as of December 31, 2022 and 2021, are reflected in "accrued interest receivable and other assets", and "accrued interest payable and other liabilities" on the consolidated balance sheets, respectively, and consist of the following:

	2022	2021
Deferred tax assets:		
Unrealized loss on debt securities available for sale	$ 7,003,415	$ -
Allowance for loan losses	1,012,576	1,005,170
Lease liability	281,432	304,294
Accrued expenses	214,104	273,055
Future benefit of state tax deduction	205,740	165,223
Other	122,238	90,124
Total	8,839,505	1,837,866
Deferred tax liabilities:		
Unrealized gain on debt securities available-for-sale	-	(1,526,424)
Lease right of use asset	(263,636)	(289,701)
Premises and equipment	(311,642)	(201,291)
Deferred loan origination costs, net	(108,140)	(109,935)
Other	(36,965)	(38,078)
Total	(720,383)	(2,165,429)
Deferred tax asset (liability), net	$ 8,119,122	$ (327,563)

The provision for income taxes differs from amounts computed by applying the statutory federal income tax rate to operating income before income taxes. The significant items comprising these differences consist of the following for the years ended December 31, 2022 and 2021:

	2022		2021	
	Amount	Rate	Amount	Rate
Federal income tax at statutory rates	$ 1,975,418	21.0%	$ 1,542,266	21.0%
State franchise tax, net of Federal benefit	803,351	8.5%	622,744	8.5%
Tax exempt investment securities, net	(183,000)	-1.9%	(187,623)	-2.6%
Other	(45,859)	-0.5%	17,030	0.3%
Total	$ 2,549,910	27.1%	$ 1,994,417	27.2%

Federal and California state franchise tax returns submitted for the year ended December 31, 2019 and 2018, respectively, and after that time are currently open for examination. The Company currently has no tax returns under examination.

Note 9. Commitments and Contingencies

Financial instruments with off-balance sheet risk – The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of the following as of December 31, 2022 and 2021:

	2022	2021
Commitments to extend credit	$ 50,361,067	$ 47,929,959
Standby letters of credit	1,371,000	1,003,000

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

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

Real estate loan commitments represent approximately 38% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. Agricultural production loan commitments represent approximately 15% of total commitments and are generally secured by crop assignments, accounts receivable, and farm equipment and have variable interest rates. Commercial and industrial loan commitments represent approximately 47% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates.

Concentrations of credit risk – The Company grants real estate loans to customers primarily in the California counties of Sutter, Yuba, Nevada, and Placer, as well as in Reno, Nevada and surrounding communities. In management's judgment, a concentration of loans exists in real estate secured loans with approximately 92% of the Company's loans being real estate related. Although management believes the loans within this concentration have no more than the normal risk of collectability, a substantial decline in the performance of the economy in general or a decline in real estate values in the Company's primary market areas could have an adverse impact on the collectability of these loans. Cash flows from commercial real estate properties and personal income represent the primary source of repayment for most of these loans.

Deposit concentration – The Company has deposit relationships greater than 5% of total deposits that in the aggregate represents approximately 7% of the Company's deposits as of December 31, 2022. The loss of these deposit relationships could have a material impact on the Company's operations and liquidity. However, management mitigates this risk by maintaining sufficient on and off-balance sheet liquidity to manage fluctuations in account balances.

Correspondent banking arrangements – The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. As of December 31, 2022, uninsured deposits at correspondent banks totaled approximately $14,833,461. Management performs an assessment of the financial strength of its correspondent banks annually or more frequently as deemed necessary.

Note 10. Stock Compensation

The Company has one stock compensation plan, the River Valley Community Bank 2016 Equity Incentive Plan (the "Plan"), which was approved by the Company's shareholders. A total of 237,742 shares of common stock are reserved for grants of awards to employees, directors, and consultants under incentive and non-statutory stock option agreements and restricted stock agreements. The Plan was adopted by the Bancorp as part of the Merger, and new equity awards and common shares are issued by the Bancorp.

The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Company's operating results, and government regulations. Generally, stock awards vest over a five-year term, and stock options expire ten years after the date of grant. New shares are issued upon stock option exercise or restricted stock vesting. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted and that the stock must be paid in full at the time the option is exercised.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock do not have voting or dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors. Generally, restricted stock awards vest on a straight-line basis over a five-year term. A summary of unvested and outstanding restricted stock award activity for the year ended December 31, 2022 is presented below:

	Shares	Weighted Avg. Stock Price at Grant
Outstanding, beginning of year	20,028	$ 19.90
New grants	15,394	20.66
Vesting	(10,364)	19.89
Forfeitures	(787)	21.30
Outstanding, end of year	24,271	$ 20.34

A summary of stock option activity for the year ended December 31, 2022 is presented below:

	Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contract Term (Years)
Outstanding, beginning of year	202,250	$ 11.88	
New grants	-	-	
Exercises	(43,174)	8.77	
Forfeitures	(10,501)	15.00	
Expired	-	-	
Outstanding, end of year	148,575	$ 12.52	4.68
Exercisable, end of year	126,350	$ 11.97	4.36

There were no stock options granted during the year ended December 31, 2022. Information related to stock options granted during the year ended December 31, 2021 and total compensation cost recognized for all stock awards issued during the years ended December 31, 2022, and 2021, is as follows:

	2022	2021
Weighted average grant date fair value per share	N/A	$ 9.40
Significant fair value assumptions:		
Expected term	N/A	6.5 years
Expected annual volatility	N/A	24.5%
Expected annual dividend yield	N/A	0.0%
Risk-free interest rate	N/A	0.8%
Total compensation cost included in noninterest expense	$ 307,345	$ 139,002

Stock options exercised during the years ended December 31, 2022 and 2021 had an intrinsic value of $557,283 and $554,299, respectively, and resulted in the Company receiving cash of $378,508 and $373,514 respectively, upon exercise. As of December 31, 2022, the unrecognized compensation cost related to non-vested stock awards totaled $540,644, which is expected to be amortized on a straight-line basis over a weighted average period of 2.3 years and will be adjusted for subsequent changes in forfeitures.

A portion of directors fees consists of restricted stock awards that vest immediately. The cost of such awards is included in “Directors’ expense” on the Company’s Consolidated Statement of Incomes.

Note 11. Shareholders’ Equity

Earnings per share – A reconciliation of the components of the basic and diluted earnings per share computations for the years ended December 31, 2022 and 2021 is as follows:

	Net Income Available to Common Shareholders	Weighted Average Shares Outstanding	Earnings per Common Share
December 31, 2022:			
Basic	$ 6,858,036	3,060,133	$ 2.24
Dilution effect	-	92,316	(0.06)
Diluted	$ 6,858,036	3,152,449	$ 2.18
December 31, 2021:			
Basic	$ 5,349,708	3,014,232	$ 1.77
Dilution effect	-	86,008	(0.04)
Diluted	$ 5,349,708	3,100,240	$ 1.73

Shares of common stock issuable under stock options that have an exercise price greater than average market prices are not included in the computation of diluted earnings per share due to their antidilutive effect. For the years ended December 31, 2022 and 2021, there were no antidilutive stock options.

Dividends – Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. As of December 31, 2022, retained earnings of $17,070,543 were free of such restrictions.

Regulatory capital – The Bank is subject to regulatory capital requirements administered by the FDIC. Capital adequacy guidelines and 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 minimum capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2020. Under Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios of 2.500%. The net unrealized gain or loss on debt securities available-for-sale is not included in computing regulatory capital. Management believes that as of December 31, 2022, the Bank meets 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. As of December 31, 2022, the most recent regulatory notification categorized the Bank as well capitalized. No conditions or events have occurred since that notification that management believes has changed the Bank's category.

Actual and required capital amounts and ratios for the Bank as of December 31, 2022 and 2021 are as follows:

	2022		2021	
	Amount	**Ratio**	**Amount**	**Ratio**
Tier 1 capital to average assets:				
The Bank	$ 52,206,000	8.2%	$ 45,093,000	8.1%
Minimum to be "Well-Capitalized"	31,683,900	5.0%	27,728,750	5.0%
Minimum regulatory requirement	25,347,120	4.0%	22,183,000	4.0%
Tier 1 common to risk weighted assets:				
The Bank	$ 52,206,000	14.0%	$ 45,093,000	12.6%
Minimum to be "Well-Capitalized"	24,181,690	6.5%	23,316,735	6.5%
Minimum regulatory requirement	16,741,170	4.5%	16,142,355	4.5%
Tier 1 capital to risk weighted assets:				
The Bank	$ 52,206,000	14.0%	$ 45,093,000	12.6%
Minimum to be "Well-Capitalized"	29,762,080	8.0%	28,697,520	8.0%
Minimum regulatory requirement	22,321,560	6.0%	21,523,140	6.0%
Total capital to risk weighted assets:				
The Bank	$ 55,909,000	15.0%	$ 48,796,000	13.6%
Minimum to be "Well-Capitalized"	37,202,600	10.0%	35,871,900	10.0%
Minimum regulatory requirement	29,762,080	8.0%	28,697,520	8.0%
Capital conservation buffer:				
The Bank		7.0%		5.6%

Note 12. Derivatives

As of December 31, 2022 and 2021, the Company has derivatives that do not qualify for hedge accounting, and therefore changes in fair value are reported in earnings. The derivatives consist of interest rate floors and caps placed on variable rate loans to make them perform similar to fixed rate loans. For each of these loans, the Company entered into a corresponding interest rate swap agreement with a third party, with notional amounts and other terms consistent with the related loan. The amount exchanged under the interest rate swap agreements is determined by reference to the notional amount and other terms. Summary information about the Company's derivatives as of December 31, 2022 and 2021 is as follows:

	2022	2021
Total loans with floors and caps	$ 2,395,304	$ 2,487,874
Total notional amounts of interest rate swaps	2,395,304	2,487,874
Total fair value of floors and caps	129,747	160,673
Total fair value of interest rate swaps	(129,747)	(160,673)
Weighted average maturity	8.3 years	9.3 years

The fair value of interest rate floors and caps, net is reflected in accrued interest payable and other liabilities with changes in fair value recorded in noninterest income. The fair value of interest rate swaps, net is reflected in accrued interest receivable and other assets with changes in fair value recorded in noninterest income. Changes in the fair value of interest rate floors and caps are offset by contrasting changes in the fair value of interest rate swaps, resulting in little to no impact on noninterest income. As of December 31, 2022 and 2021, the Company had $280,000 in cash pledged to secure the interest rate swap agreements.

Note 13. Related Party Transactions

During the normal course of business, the Company enters into transactions with related parties, including directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers for the years ended December 31, 2022 and 2021:

	2022	2021
Related party loans, beginning of year	$ 17,611,556	$ 10,838,948
Advances	9,918,216	12,422,999
Payments	(11,870,199)	(5,650,391)
Related party loans, end of year	$ 15,659,573	$ 17,611,556
Undisbursed commitments to related parties, end of year	$ 4,224,106	$ 5,481,126

Related party deposits totaled approximately $29,438,000 and $35,292,000 as of December 31, 2022 and 2021, respectively.

Note 14. Employee Benefit Plan

The Company has a 401(k) profit sharing plan. All employees 18 years of age or older with 30 days of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. Safe harbor contributions of $140,408 and $137,765 were made by the Company during the years ended December 31, 2022 and 2021, respectively.

Note 15. Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021 and the level input used to determine the estimated fair value are summarized below:

	Level 1	Level 2	Level 3	Total
December 31, 2022:				
Debt securities available-for-sale:				
U.S Government-sponsored entities and agencies	$ -	$ 47,224,705	$ -	$ 47,224,705
Obligations of states and political subdivisions	-	85,074,961	-	85,074,961
U.S. Government sponsored agencies collateralized by mortgage obligations	-	65,760,855	-	65,760,855
U.S. Government sponsored agencies mortgage-backed securities	-	8,115,853	-	8,115,853
Corporate debt securities	-	17,120,488	-	17,120,488
Student loan backed securities	-	29,891,215	-	29,891,215
Total investment securities	$ -	$ 253,188,077	$ -	$ 253,188,077
Derivative assets, net	$ -	$ 129,747	$ -	$ 129,747
Derivative liabilities, net	$ -	$ (129,747)	$ -	$ (129,747)
December 31, 2021:				
Debt securities available-for-sale:				
Obligations of states and political subdivisions	$ -	$ 85,403,988	$ -	$ 85,403,988
U.S. Government sponsored agencies collateralized by mortgage obligations	-	70,029,108	-	70,029,108
U.S. Government sponsored agencies mortgage-backed securities	-	7,816,245	-	7,816,245
Corporate debt securities	-	32,271,190	-	32,271,190
Student loan backed securities	-	32,254,962	-	32,254,962
Total investment securities	$ -	$ 227,775,493	$ -	$ 227,775,493
Derivative assets, net	$ -	$ 160,673	$ -	$ 160,673
Derivative liabilities, net	$ -	$ (160,673)	$ -	$ (160,673)

There were no transfers between levels during the years ended December 31, 2022 and 2021.

The carrying amounts and estimated fair values of financial instruments not carried at fair value as of December 31, 2022 and 2021 are as follows:

	Carrying	Estimate Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
December 31, 2022:					
Financial assets:					
Cash and due from banks	$ 6,755,238	$ 6,755,238	$ -	$ -	$ 6,755,238
Interest bearing deposits in banks	83,616,839	83,616,839	-	-	83,616,839
Time deposit in banks	1,987,000	-	2,008,333	-	2,008,333
Loans, net	253,890,382	-	-	253,213,216	253,213,216
Accrued interest receivable	2,273,524	-	2,273,524	-	2,273,524
Financial liabilities:					
Deposits	591,357,661	573,357,946	17,942,476	-	591,300,422
Accrued interest payable	24,943	-	24,943	-	24,943
December 31, 2021:					
Financial assets:					
Cash and due from banks	$ 5,785,829	$ 5,785,829	$ -	$ -	$ 5,785,829
Interest bearing deposits in banks	95,234,148	95,234,148	-	-	95,234,148
Time deposit in banks	1,738,000	-	1,821,987	-	1,821,987
Loans, net	246,515,703	-	-	246,286,699	246,286,699
Accrued interest receivable	1,652,337	-	1,652,337	-	1,652,337
Financial liabilities:					
Deposits	548,019,556	524,820,990	23,254,184	-	548,075,174
Accrued interest payable	16,198	-	16,198	-	16,198