Exchange Bank

April 5, 2024

Dear Shareholders:

We write to you this year to report on Exchange Bank's 2023 financial results and to share with you our insight into plans, decisions and events that impacted those results. As we do every year, we will share what we believe were and are important trends in the economy, the financial services sector, and within Exchange Bank itself. Finally, we will talk about our efforts and activities to support our commitment to our core mission – *to invest in people, business, and community to build a strong future.*

In summary, Exchange Bank ended 2023 reporting $20.19 million in annual net income and total paid dividends of $8.91 million equaling a dividend payout ratio of 44.14%. The Bank's capital ratios remain well in excess of the regulatory minimums to be considered "well capitalized." As of December 31, 2023, the Bank's regulatory total risk-based capital ratio was 18.84% and the leverage ratio was 10.52%.

Clearly, 2023 was a volatile year in the banking space after the very surprising and rapid failures of Silicon Valley Bank and Signature Bank, followed by the slow demise of First Republic Bank not long thereafter. In the short term, confidence in the banking industry as a whole was again put into question, and the strength of the liability side of the balance sheet became a major focus for all banks. Thankfully, as described in more detail following, this concern played into a strength of Exchange Bank – our stable and low-cost core deposit base that is not overly weighted in large balances, uninsured deposits, or concentrated sources.

The Bank ended the year with total deposits of $2.84 billion, down $227.65 million, or 7.42%, from 2022. As was the case in 2022, we had expected deposits to decrease in 2023 by this approximate amount as a natural response to the large increases of non-core deposits gathered during the COVID pandemic and as a result of approximately $389 million of PPP loans funded to our own customers (as a reminder, we grew deposits by $423.57 million in 2020 and another $400.55 million in 2021). As previously noted, deposit concentrations became an important concern in 2023. We believe our deposits, sourced approximately 1/3 from businesses and 2/3 from consumers, are considered "unconcentrated." Our customers represent the wide fabric of our community, with no over-representation of any industry, social, or demographic group at reasonable risk for deposit flight contagion. At year-end, we estimate that 75% of our deposits are fully FDIC insured, a number that compares favorably with our peer banks.

On the asset side of the balance sheet, the Bank grew loans by $84.77 million, or 5.6% in 2023. The disruption in the credit markets surrounding the failures of SVB, Signature, and First Republic caused some lenders in the market to cease making new loans. We saw this as an opportunity to compete effectively for high quality well-priced credits and remained an active lender in the marketplace. Additionally, we believe, as a community bank, that it was our responsibility to remain a reliable credit resource for our customers during this uncertain time.

The largest driver in the decrease of our net income from $37.48 million in 2022 to $20.19 million in 2023 was a one-time charge of $9.10 million, net of taxes, related to the voluntarily termination of the 70-year-old Exchange Bank pension plan. Excluding this one-time charge, net income for 2023 would have been $29.25 million. In the second quarter of 2023, the Bank booked this charge to fully retire and settle all of its obligations to retirees and certain active employees who were once a part of the now terminated pension plan. This long contemplated action by the Bank, which was initiated in mid-2022, followed many years of managing through myriad complex and costly accounting and regulatory requirements. This action now eliminates all future actuarial and regulatory risks for the Bank related to this plan, as well as the administrative expenses to manage it. All plan members were made completely whole through either a lump-sum distribution or the provision of an annuity. Importantly, through the reversal of certain accruals and tax treatments, our final net adjustment to capital was a negative $3.2 million. We believe this one-time reduction of Bank capital, equal to less than 1% of the Bank's current regulatory capital, will likely be offset in the coming years by savings tied to the elimination of the costs to administer the plan.

The other large driver of our reduced net income was the slow but steady increase in our cost of funds during the year. Total funding costs in 2022 were $2.08 million as compared with $25.06 million in 2023, an increase of $22.98 million. Of that 2023 amount, interest paid on deposits totaled $16.72 million and interest paid on borrowings totaled $8.34 million. While that increase is material, the Bank maintained a total cost of funding in 2023 of 0.82% which remains in the lowest 10th percentile of our peer groups. This is a significant strength of the Bank.

Competition for deposits has increased within our market area as a handful of other institutions, with less stable deposit footings, are compelled to offer higher rates to attract new deposits to replace exiting non-core deposits that are more transitory due to interest rate sensitivity. We continue to strategically compete in this marketplace as we see appropriate. Because of this, and as a result of interest rates that have been held "higher for longer" as the Federal Reserve continues to work to tame inflation back down to a 2% level, the mix of our deposit accounts has adjusted in 2023. We began the year with 38.80% of our deposits in non-interest-bearing accounts. That number has decreased to 34.43% as of the end of the year. One component of this change is our introduction of reciprocal interest-bearing ICS and CDARS deposit products. These innovative products allow large balance deposit relationships that would normally be in excess of standard FDIC insurance limits to be fully insured.

While higher rates do increase interest expense costs, they also increase interest income as some loans reprice, new loans at higher rates replace maturing loans, and revenue earned on the investment portfolio increases. Total interest income earned on assets increased by $14.34 million, or 14.7%, in 2023.

This year-over-year increase in interest income of $14.34 million was not enough to offset the year-over-year increase in interest expense of $22.98 million, contributing to the overall decline in net income. This non-parallel movement is considered somewhat typical in a rising interest rate environment when assets (loans and investments) tend to reprice at a slower pace as compared with liabilities (deposits and borrowings). This offset was further enhanced by the Federal Reserve's atypical speed of the upward movement of rates during that period.

The result of this inequity in interest earned and interest paid in 2023 was a decrease in the Bank's net interest margin from 3.01% in 2022 to 2.86% in 2023. Maintaining stability or achieving growth in the net interest margin will be dependent upon the effective management of our cost of funds in 2024.

The generation of non-interest income remains a strength of Exchange Bank with a significant contribution coming from the Bank's Trust and Investment Management team. Total non-interest income in 2023 was $23.66 million, slightly less than the $24.37 million earned last year. Of that amount, $9.79 million came from the important work performed by our Trust team in 2023. Unfortunately, the banking industry remains under constant pressure, both from ordinary competition and from increasing regulatory oversight, to reduce or eliminate normal and customary fees earned on deposit products. As non-bank competitors such as Venmo continue to grow their customer base, and as regulators and lawmakers continue their focus on bank fees, that pressure will likely continue.

Successful businesses grow by increasing revenue, not simply by controlling expenses. Revenue growth is an integral part of our strategic plan, as is expense management. Non-interest expenses did increase by 17.74% in 2023; however, that increase was inclusive of the one-time charge to terminate the pension plan. Net of that charge, non-interest expenses increased by 6.3% from 2022 to 2023. The two main drivers that increased expenses were personnel costs and investments in technology.

Regarding personnel costs, we continue to acknowledge that our employees are our greatest asset. This is especially true for a community bank with strong and diverse ties to our marketplace. We are proud to announce that once again, and for the 18th year in a row, Exchange Bank was recognized as a Best Place to Work by the North Bay Business Journal. We constantly strive to maximize productivity and create opportunities for our existing employees by strategically realigning our workforce as normal turnover occurs. The velocity of change within our industry is dramatic, and we believe it is critical that the structure of our workforce flexes to align with the changing environment. In 2023, we provided cost of living adjustments to assist and retain our employees who we know work in a high cost of living area of California. We eliminated 18 legacy positions, retooling and, in some cases, upgrading eight of them to match the current and future needs of the Bank, while permanently eliminating the remaining ten positions. This restructure will save over $800,000 in annual personnel expenses.

Much of the savings in personnel expense was utilized to support our strategic commitment to a cutting-edge technology and cybersecurity footprint. Continuing our investment in our highly skilled information technology team serves the Bank in three distinct ways. First, it supports our commitment to our customers to seamlessly meet them wherever they want to interact with us – at home, on the road, or in one of our branches. Next, it creates efficiencies in our customer-facing and back-office processes that allow us to serve our customers more effectively. Finally, our commitment to a robust technology footprint supports our intense focus on cybersecurity and fraud prevention.

When we look at the overall performance of the Bank, the observations that we made in last year's shareholder letter regarding the difficulties utilizing the common bank performance metrics of Return on Average Assets ("ROAA") and Return on Average Equity ("ROAE") to measure Exchange Bank's 2023 performance are relevant again this year, although for both similar and different reasons. In summary, unadjusted ROAA was 0.60% and ROAE was 9.74% in 2023.

There are three components to these two calculations: net income, average assets, and average equity. ROAA is the quotient of net income divided by average assets and ROAE is the quotient of net income divided by average equity. As described previously, net income, the numerator of both calculations, was significantly negatively affected by a one-time charge of $9.10 million, net of tax, to terminate the Bank's pension fund in 2023. Also, as will be described in more detail later in this letter (and as was described in great detail in last year's letter), the Bank's average equity number on a Generally Accepted Accounting Principle ("GAAP") basis includes unrealized losses associated with the Bank's available-for-sale investment portfolio. The Bank's available-for-sale investment portfolio is marked to market and the associated unrealized losses, net of tax, show on the balance sheet as negative Accumulated Other Comprehensive Income ("AOCI"), reducing average equity. Finally, average assets are still being affected by the significant increase in deposits from 2020 and 2021.

Just as we did in our 2022 annual shareholder letter, we believe it is helpful to also present a calculation of ROAA and ROAE taking into consideration anomalous events. In 2023, we would consider those events to be the one-time charge to terminate the pension plan and the unrealized losses in the investment portfolio. When eliminating the effects of both of those factors, ROAA in 2023 was 0.88% and ROAE in 2023 was 8.45%.

As of December 31, 2023, the Bank's book or GAAP equity increased $53.20 million, or 26.33%, from the same period in 2022 after paying dividends of $8.91 million. This increase in book equity was mainly due to a decrease of the unrealized losses on available-for-sale investment securities caused by a changing interest rate environment. Those unrealized losses, net of tax, decreased by $35.35 million in 2023. To better understand the Bank's change in equity, it is appropriate to also discuss changes in regulatory capital. Regulatory capital excludes the changes in book equity associated with the value of the investment portfolio, captured in AOCI. Regulatory capital was $393.59 million at the end of 2023, a gain of $13.34 million, or 3.51%, over the same period in 2022. As noted above, the Bank's capital ratios remain well in excess of the regulatory minimums to be considered well-capitalized.

Diving deeper into the balance sheet, the Bank's loan portfolio grew cautiously by 5.61% in 2023. We saw an opportunity to put high-quality credits on the books as a somewhat disjointed market reacted to the quick and unexpected failures of three regional banks. The loan portfolio remains well-diversified with its greatest concentrations in commercial real estate (39.70%), residential real estate (29.21%) and multifamily residential real estate (9.95%). Within the commercial real estate portfolio, we have no significant concentrations in any one property type, including office space.

The loan portfolio continues to perform well with only 0.26% of its total, or $4.20 million, in non-accrual loans and no OREO as of December 31, 2023. Supporting the strength of the loan portfolio is a well-funded allowance for credit losses of $41.27 million, or 2.59% of gross loans. Even though the Bank grew its loan portfolio in 2023, no additional provisions for losses were booked as the allowance was considered adequately funded and the credit metrics of the Bank have remained stable.

We have talked about the metrics of our deposit portfolio is some detail prior in this letter. In short, the competition for core deposits has grown significantly in this current environment. We welcome this change, and we believe it plays into a key strength of this community bank. With the largest branch footprint in Sonoma County that includes 16 well-located branches deeply embedded into their individual communities, and with a 133-year history of connectivity to generations of families and businesses in Sonoma County, this Bank and our employees are closely connected to the vast majority of current and potential customers in this market.

The Bank's available-for-sale investment portfolio ended 2023 with a market value of $1.497 billion, down $78.2 million over the prior year. The unrealized loss imbedded in the portfolio at December 31, 2023, due to an increased interest rate environment, was $156.60 million, a decrease of $50.19 million from the prior year end. The value of the portfolio changes up or down daily for two distinct reasons. First, as 100% of the portfolio is held as available-for-sale ("AFS"), its value is subject to the daily fluctuations of the value of the underlying securities. In the case of Exchange Bank's portfolio, because there are no credit-related impairments, that value fluctuates solely based upon daily changes in the market. When rates go up, the value of the investment portfolio goes down, and vice-versa. Generally, rates trended slightly down in 2023 providing a small boost to the value of the investment portfolio (and increasing AOCI by decreasing the loss). Second, the value of the investment portfolio changes as either principal is repaid as expected and converted to cash on the balance sheet or as new investments are purchased from cash on the balance sheet. In 2023, the Bank purchased only $13.00 million in new U.S. Treasury securities, solely for the purpose of collateralizing certain deposits. Therefore, the majority of the change in the value of the investment portfolio is driven by the expected principal reductions on existing securities offset slightly by increases in the value of the portfolio tied to the interest rate environment. Both of these trends are positive for the Bank.

Principal and interest payments derived from the investment portfolio are an important source of liquidity for the Bank. The portfolio was designed to generate consistent and reliable cash flow in the form of principal reductions and interest payments, and it has generally performed as expected. The dramatic increases in interest rates that began in 2022 created imbedded unrealized losses in the available-for-sale investment portfolio that are diminished as the portfolio pays down. The effective duration of the portfolio on December 31, 2023 was 4.05 years, shorter than most of our peers. At this time, the Bank's position regarding the unrealized losses imbedded in the investment portfolio is unchanged from last year:

The Bank has the intent and the ability to hold the securities in the investment portfolio until maturity. We expect full collection of the carrying amount of these securities, and therefore, we do not expect to recognize these unrealized losses.

Many of our peer institutions have sold portions of their investment portfolios at losses to recoup liquidity, payoff borrowings, or simply to reinvest at higher rates. The payback periods for these transactions tend to be many years at a minimum. The Bank has analyzed and continues to analyze that strategy and, as of the date of this letter, continues to believe that it is not in the best interest of the shareholders. Changes in the interest rate environment do require a constant evaluation of that strategy.

As of December 31, 2023, the Bank had $225.00 million in borrowings under the Federal Reserve's Bank Term Funding Program ("BTFP") that do not mature until 2025. The Bank has significant sources of additional liquidity to cover cash flow needs. As of December 31, 2023, the Bank had $1.60 billion in available borrowing capacity. Maintaining and growing our deposit base and managing our loan fundings will be the most effective and profitable way to manage our liquidity position as our investment portfolio continues to pay down. The prospects of interest rate cuts, which will elevate more of our investment portfolio out of an unrealized loss position, remain on the table for 2024.

The prospect and potential timing of interest rate cuts has been the topic of much debate for the previous six months. Many economists doubted that the Federal Reserve would be able to engineer a "soft landing" and the threat of a quick transition into a recession and lower interest rates in the near future loomed large. More recently, however, even with inflation indicators moving in a downward direction, the Fed has not felt comfortable that it has tamed inflation enough to warrant cuts to the target rate. "Higher for longer" seems to be the current sentiment with many forecasters opining that the first cut will not come until June 2024 or later. The Fed seems to be making an effort to be more transparent, and paradoxically this may be detrimental to their efforts to tame inflation as, based upon their comments, many market participants have already factored in future cuts. This continues to provide momentum for the economy.

The current structure of the Bank's balance sheet would favor interest rate cuts sooner than later for two main reasons. First, lower rates would reduce some of the strong competition for deposits that serves only to increase our funding costs through deposit retention and growth efforts. Second, lower rates will move more of our AFS investment portfolio from an unrealized loss position allowing for the flexibility of selling some to reduce borrowing costs and provide liquidity without affecting the income statement.

As we briefly mentioned prior, on a macro level the banking industry as a whole has been very challenging in 2023. The quick and substantial rise in interest rates in the later part 2022 put significant pressure on a number of banks whose balance sheets were not positioned to absorb those increases. But the proper management of interest rate risk has been an integral part of banking since the very beginning. Two other main challenges that currently exist and are increasing for all banks are more structural in nature – increased regulation on existing banks and increased competition from unregulated non-banks.

Changes in the regulatory environment have accelerated, and those changes are being rolled out in a manner that creates tremendous burdens on small institutions to keep pace. Many of these changes are well-intentioned, such as the 649-page revision to the Community Reinvestment Act or the proposed Section 1071 small business data collection requirements. However, the uncoordinated manner in which these new regulations are being placed on the banking industry is creating real pressure on smaller community banks to maintain profitability. The unintended consequence may well be more M&A activity and the further loss of small community banks (less than $1 billion) across the nation. At $3.3 billion, Exchange Bank remains well-positioned to absorb these increased regulatory burdens, but they do come at a cost to the growth of net income.

Competition from FinTechs is also increasing, and it remains to be seen how the further adaptation of their products will change banking in general and community banking in particular. It is a complicated question as many FinTechs are actually bank partners, developing products and engaging in R&D activities that banks not named Chase or Bank of America could never do. The vast majority of banks across the nation, including Exchange Bank, rely upon FinTech vendors for the provision of some of our own products and services. Ultimately, these FinTech partners may begin to evolve more toward providing primary banking services, like Venmo for example. Bank regulators will need to engage to level the competitive playing field and continue to protect the consumer. Ultimately, we believe banking is still a relationship business built on personal connections and a physical presence. Without a doubt, community banking, the strength of Exchange Bank, still is. We believe what is often said about politics is also true about community banking - it is all local. We are local.

Our local economies of Sonoma County and our satellite offices in Placer, Santa Clara, and Marin counties remain robust although challenging in some respects. The affordability of housing remains a key issue with no clear answer on the horizon for this important problem. For this reason, Sonoma County, our primary market, continues to be challenged by an aging demographic and little to no population growth. While today it can be said that this benefits the Bank as our customer demographic is skewed toward older residents, it remains incumbent on the Bank to also expand our customer base to the younger demographics so that the Bank may age along with them.

The manner in which all of our customers, younger and older, interact with the Bank is evolving, but it is clear that to grow our customer base in the Millennial, Gen X, and Gen Y spaces we must have a robust and cutting-edge digital banking channel. We believe that we do. As mentioned earlier in this letter, we continue to budget and spend appropriately but deliberately on our digital platform to ensure that we continue to live up to our promise to meet our customers wherever and whenever they want to be met – at home, on the road, or in one of our 17 branches. While we continue to upgrade and fortify the backbone of our network for both security and redundancy, we are particularly proud of our new customer-facing public website that we believe provides a better customer experience and also tells a more robust story of the history, mission, and culture of the Bank.

In 2023, we made very good progress on our data analytics capabilities through upgrades in both technology and human capital, but we are still not yet where we want to be in this important discipline. Leveraging and expanding these capabilities in 2024 will be a major focus. We look at data through three distinct lenses – internal financial analysis and decision making, internal operational efficiencies, and marketing. From an internal perspective, our enhanced data analytics allow us to make faster and better-informed decisions that help us manage risk, generate revenue, and reduce expenses. From a marketing perspective, our efforts to better understand our customers and our community allow us to develop and deliver products and services that provide enhanced value and grow our business. To be clear, however, we take data privacy very seriously and safeguard it with the same level of care as any other asset that our customers entrust us to manage.

Along those lines, cybersecurity remains the overriding technology priority at Exchange Bank. We continue to provide significant and increasing resources to our highly-skilled information security team to ensure that they have the robust tools and the human capital, both internal and external, that they require to protect our technology infrastructure and our customers' data. This "cybersafe" culture permeates throughout Exchange Bank and we diligently work with our customers to assist them in this regard as well.

Previously, we touched briefly on our Trust and Investment Management team. This team continues to provide good opportunities for non-interest income growth at the Bank, and we are pleased to share with you that we opened our Marin County office in the fall of 2023. The warm reception that we received from the Marin community was even greater than we had hoped for, and that team is making positive strides toward stand-alone profitability already. The office, located in San Rafael just down the road from the iconic Marin County Civic Center, has already been approved to include a deposit-gathering retail branch and we are considering that in later 2024. We continue to believe that leading with our Trust and Investment Management team provides us a great opportunity to cautiously and strategically expand our footprint outside of our primary market area of Sonoma County.

Exchange Bank has been built upon the significant contributions of many great leaders over our 133-year history. Their dedication to the mission and culture of Exchange Bank brought this institution to the place it is now, and their commitment to our community continues to inspire us today. Charles “Chuck” Bartley was one of those inspirational leaders of both Exchange Bank and Sonoma County and we were deeply saddened to have lost him in 2023. Chuck was a Santa Rosa businessman, a civic leader, and a World War II veteran who served on the Board of Directors of Exchange Bank for 40 years, from 1969 to 2009. He was also a long-time trustee of the Doyle Trust. We would like to take this opportunity to acknowledge the tremendous positive influence Chuck had on our community and thank him for his impactful contributions and leadership at Exchange Bank.

Without a doubt, 2023 was a challenging year for all banks. Although somewhat of a cliché, we believe that challenges like this only serve to make us stronger. We were abruptly reminded (although we did not need the reminder) that our industry is continuing to change, and that the velocity of that change is only increasing. Internally, we have acknowledged that we must continually evolve to remain relevant and competitive in our community banking space. It would be easy for Exchange Bank to measure our success by looking in the rear-view mirror, admiring all of the places that we have been and all of the things that we have done. However we know our future is in front of us, and our Board of Directors and Executive team are focused on two things – incrementally, but purposefully, evolving this Bank to be successful in a fast-changing and competitive banking environment, and doing so with an unwavering fidelity to the original mission and culture given to us by our founders in 1890. Both can be done at the same time. In fact, it is our belief that they are dependent upon each other.

On behalf of the Board of Directors, our Executive Management team, and our amazing employees, we would like to take this opportunity to thank you, our shareholders, for your support.

We would like to invite you to our Annual Shareholders’ Meeting on Friday, May 17, 2024 at 2:00 p.m. If you are unable to attend, we would request your proxy vote be given to management. In the interim, if you have any specific questions you would like answered, please direct them in writing to:

Marlene Soiland
Corporate Secretary
Exchange Bank
P.O. Box 403
Santa Rosa CA 95402

You may also contact the Chairman directly via e-mail at: bill.schrader@exchangebank.com.

Sincerely,

William R. Schrader
Chairman of the Board

Troy J. Sanderson
President and Chief Executive Officer

EXCHANGE BANK
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 17, 2024

The Annual Meeting of the Shareholders of Exchange Bank, a California corporation (the "Bank"), will be held at the Andrew J. Shepard Building Administrative Services Building, 444 Aviation Boulevard, 2nd Floor, Santa Rosa, CA 95403, on Friday, the 17th day of May, 2024, at 2:00 p.m., (Pacific Time), for the following purposes:

1. To elect members of the Board of Directors.
2. To ratify the Bank's appointment of its independent auditor.
3. To transact such other business as may properly be brought before the meeting or any adjournments thereof.

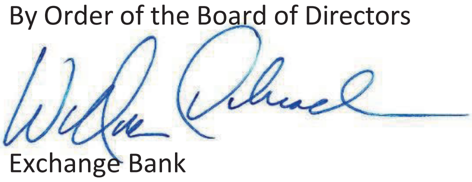
The Board of Directors has fixed the close of business on March 28, 2024, as the record date for the determination of the shareholders entitled to notice of, and to vote at, the meeting. Accordingly, only shareholders of record at the close of business on that date will be entitled to vote at the meeting, or any adjournments thereof.

TO ENSURE YOUR REPRESENTATION AT THE MEETING, THE BOARD OF DIRECTORS OF THE BANK REQUESTS THAT YOU TO MARK, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE, OR, ALTERNATIVELY, TO VOTE YOUR SHARES BY TELEPHONE OR INTERNET BY FOLLOWING THE INSTRUCTIONS PROVIDED ALONG WITH YOUR PROXY CARD. YOUR PROXY MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED. IF YOU ARE ABLE TO ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY WITHDRAW YOUR PROXY AND DO SO.

We encourage you to review all of the important information contained in the attached proxy statement before voting. Please contact Kathy Sutliff at 707-524-3121 if you would like information on how to obtain directions to be able to attend the meeting and vote in person.

Date: April 5, 2024

By Order of the Board of Directors



Exchange Bank
545 4th Street
Santa Rosa CA 95401

EXCHANGE BANK
545 4TH STREET
SANTA ROSA CA 95401

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 17, 2024

This Proxy Statement is furnished to shareholders of Exchange Bank (the "Bank") in connection with the solicitation of proxies by the Board of Directors of the Bank for the Annual Meeting of Shareholders to be held at the Andrew J. Shepard Building Administrative Services Building, 444 Aviation Boulevard, 2nd Floor, Santa Rosa, CA 95403, on Friday, May 17, 2024, at 2:00 p.m. (Pacific Time), and any adjournments or postponements thereof, which we refer to as the "meeting" or "Annual Meeting". This Proxy Statement and form of Proxy enclosed herewith are being sent to the shareholders of the Bank entitled to vote at the Annual Meeting on or about April 5, 2024.

General Information about the Meeting and Voting Securities and Procedures

Who may vote at the meeting?

The Board of Directors has fixed the close of business on March 28, 2024 as the record date for the determination of shareholders who are entitled to notice of and to vote at the meeting. You are entitled to one vote for each share of common stock you held on the record date, including shares:

- held directly in your name; and/or
- held for you in an account with a broker, bank or other nominee.

How many shares must be present to hold the meeting?

The presence at the meeting of a majority of the Bank's common shares entitled to vote at the Annual Meeting shall constitute a quorum for purposes of holding the meeting and conducting business. On the record date there were 1,714,344 shares of the Bank's common stock outstanding. Each of the holders of the outstanding shares, totaling 1,714,344 shares, are entitled to one vote per share. Your shares are counted as present at the meeting if you:

- are present and vote in person at the meeting; or
- have properly submitted a proxy card prior to the meeting via mail, telephone or internet.

What proposals will be voted on at the meeting?

There are two proposals scheduled to be voted on at the meeting: (i) the election of members to serve on the Bank's Board of Directors and (ii) the ratification of the selection of our independent auditor.

Who is requesting my vote?

The solicitation of proxies on the enclosed form is made on behalf of the Board of Directors of the Bank and will be conducted through the mail. Please mail your completed proxy in the envelope included with these proxy materials. The cost of preparing, assembling and mailing this Proxy Statement, the Notice of Meeting and the enclosed Proxy will be borne by the Bank.

How many votes are required to approve each proposal?

Proposal One:

Because the election of Directors is determined by a plurality, the nominees receiving the most votes "FOR" will be elected.

In connection with the election of directors, shares may be voted cumulatively if a shareholder present at the meeting gives notice at the meeting, prior to the voting for election of directors, of his or her intention to vote cumulatively. If any shareholder of the Bank gives such notice, then all shareholders eligible to vote will be entitled to cumulate their shares in voting for election of directors. Cumulative voting allows a shareholder to cast a number of votes equal to the number of shares held in his or her name as of the record date, multiplied by the number of directors to be elected. These votes may be cast for any one nominee or may be distributed among as many nominees as the shareholder sees fit. If cumulative voting is declared at the meeting, votes represented by proxies delivered pursuant to this proxy statement may be cumulated in the discretion of the proxyholders, in accordance with management's recommendation.

Proposal Two:

The affirmative vote of a majority of the votes cast by holders of the Bank's common stock is required to approve Proposal Two, to ratify the appointment of the independent auditor.

How does the Board recommend that I vote?

The Board of Directors urges you to read the Proxy Statement carefully and then vote your shares. The Board of Directors recommends that you vote **FOR** each of the Director nominees named in this Proxy Statement and **FOR** Proposal Two, to ratify the appointment of the independent auditor.

How are shares voted?

For Proposal One, a shareholder may:

- Vote "FOR" each of the nominees for election to the Board of Directors
- "WITHHOLD" authority for each nominee for election to the Board of Directors.

For Proposal Two, a shareholder may:

- Vote "FOR" the proposal
- Vote "AGAINST" the proposal
- Abstain from voting on the proposal

If the accompanying proxy is properly signed and returned and is not withdrawn or revoked, the shares represented thereby will be voted in accordance with the specifications thereon. If the manner of voting such shares is not indicated on the proxy, the shares will be voted **FOR** the election of the nominees for Directors named herein and **FOR** the ratification of the appointment of the independent auditor. Your shares will also be voted in the discretion of the Board of Directors on any other business properly brought before the meeting.

How do I vote my shares?

Whether you hold shares directly or in "street name", you may direct your vote without attending the Annual meeting. If you are a shareholder of record, you may vote by granting a proxy as follows:

- By Mail - You may vote by mail by signing and dating your proxy card and mailing it in the envelope provided. You should sign your name exactly as it appears on the proxy card. If you are signing in a representative capacity (for example, as guardian, trustee, custodian, attorney or officer of a corporation), you should indicate your name and title or capacity. Proxies submitted by mail must be received by Computershare, the Bank's stock transfer agent, prior to the vote taken at the Annual Meeting.

- By Phone or Internet – you may vote by phone or internet by following the instructions provided by Computershare along with your proxy card.

For shares held in "street name", you should follow the voting instructions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in some cases, submit voting instructions by telephone or the internet. If you provide specific voting instructions by mail, telephone, or internet, your broker or nominee will vote your shares as you have directed.

Even if you plan to attend the meeting, we encourage you to submit your proxy by mail so your vote will be counted if you later decide not to attend the meeting.

If you choose to vote at the Annual Meeting:

- If you are a shareholder of record, to vote your shares at the meeting you should bring the enclosed proxy card and proof of identity.

- If you hold your shares in "street name," you must obtain a proxy in your name from your bank, broker or other holder of record in order to vote at the meeting and bring proof of beneficial ownership (such as a recent brokerage statement or a letter from your bank or broker) and proof of identity.

What does it mean if I receive more than one proxy?

It likely means you hold shares registered in more than one account. To ensure that all of your shares are voted, sign and return each proxy. You may also vote each proxy by telephone or online.

May I change my vote?

Yes. You may revoke your proxy at any time prior to the voting thereof by filing with the Corporate Secretary of the Bank at the Bank's principal office at 545 4th Street, Santa Rosa, CA 95401, a written revocation or a duly executed proxy bearing a later date. Any such revocation must be executed prior to 2:00 p.m. (Pacific Time) on the day of the Annual Meeting. A shareholder may also withdraw the proxy in person at the meeting at any time before it is exercised. The presence of a shareholder at the Annual Meeting, however, will not automatically revoke such shareholder's previously submitted proxy.

When will the proxy and annual report be mailed to shareholders?

This Proxy Statement and the accompanying Notice of Annual Meeting of Shareholders and Consolidated Financial Statements are being mailed to the Bank's shareholders on or about April 5, 2024.

PROPOSAL ONE
ELECTION OF DIRECTORS
INFORMATION CONCERNING NOMINEES FOR ELECTION AS DIRECTORS

The Bank currently has ten Directors, all of which are slated for election. Each of the nominees for election presently serves on the Board of Directors and is being nominated to serve a one-year term. The Board of Directors has no reason to believe that any nominee will be unable to serve as a Director, if elected. However, in the event any nominee should become unavailable for election, the proxy will be voted for such substitute, if any, as the Board of Directors may designate, or the Board of Directors may choose to reduce the number of directors to be elected at the Annual Meeting.

Set forth below are the names of the ten persons nominated by the Board of Directors for election as Directors of the Bank at the Annual Meeting, along with certain other information concerning such persons.

Name and Year first Became Director	Age	Position Held within the Bank	Principal Occupation or Employment During the Past Five Years and Education Pertaining to Board of Director Qualifications
Bruce E. DeCrona, 2014	69	Director	Retired, Banker
Steven G. Dutton, 2014	57	Director	President and Co-Owner, Dutton Ranch Corp.
Gary T. Hartwick, 2014	69	Director	Retired, Banker
Eric D. McHenry, 2021	65	Director	Retired Executive
Deborah A. Meekins, 2018	71	Director	Retired, Banker
James M. Ryan, 1997	65	Director	President , Ryan Mortgage Company
Troy J. Sanderson, 2021	59	Director	President and Chief Executive Officer, Exchange Bank
William R. Schrader, 2008	73	Director	Retired, Banker
Marlene K. Soiland, 1997	68	Director	President and CEO, Soiland Management Company
Gregory S. Steele, 2020	62	Director	Retired, Technology Executive

Additional information regarding the ten nominees for election to the Board of Directors is as follows:

Bruce E. DeCrona *Retired, Banker*
Mr. DeCrona was appointed to the Board in 2014 and serves as the Board's Audit Committee chair. He also serves on the Board's Compensation/Management Succession, Technology, and Trust Committees. Mr. DeCrona retired from Exchange Bank in 2013 after serving nearly 18 years in the roles of chief financial officer and chief operating officer. Before that he worked for 19 years at First Interstate Bank in Nevada and Arizona, prior to the bank's purchase by Wells Fargo Bank. He is a graduate of the University of Nevada as well as the Pacific Coast Banking School. Mr. DeCrona is involved with the Luther Burbank Center for the Arts and has been an active volunteer for several other organizations, including the Council on Aging.

Steven G. Dutton *President and Co-owner, Dutton Ranch Corp.*
Mr. Dutton was appointed to the Board in 2014 and currently serves on the Board's Community Reinvestment Act, Loan, and Trust Committees. He is a fifth-generation Sonoma County farmer and lifelong resident of Sebastopol. He is partners with Dan Goldfield in Dutton-Goldfield Winery and is also partners with his brother in Dutton Ranch Corp. and Dutton Bros. Farming. Mr. Dutton is actively involved in the agricultural community, contributing to many local associations and Boards. He is past president and current Board member of the Sonoma County Farm Bureau, past president and Board member of the Sonoma County Farm Bureau Foundation, president of the Russian River Valley Winegrowers Foundation, past Board member of the Sonoma County Farm Trails, and is a member and chair of the Santa Rosa Junior College Viticulture Advisory Committee.

Gary T. Hartwick *Retired, Banker*
Mr. Hartwick was appointed to the Board in 2014. He joined Exchange Bank in 2009 and has served as chief credit officer and chief operating officer. He became president and chief executive officer in 2014 and held that position until his retirement in 2021. He serves as chair of the Board's Loan Committee and also serves on the Community Reinvestment Act and Trust Committees. Mr. Hartwick is a seasoned banker with over 44 years of experience, including top level executive responsibility in areas of credit, budgeting, asset and liability management and strategic planning. He is a graduate of California State University Sacramento and the Pacific Coast Banking School. His community activities included serving as a Board member for the Volunteer Center of Sonoma County and the Redwood Empire Food Bank. He is a former Advisory Board member for the Boys & Girls Club of South Sonoma and Marin Counties, and a former member of the Board at the Luther Burbank Center for the Arts.

Eric D. McHenry *Retired Executive*
Mr. McHenry was appointed to the Board in 2021 and serves as the chair of the Board's Technology Committee. He also serves on the Board's Community Reinvestment Act Committee. He recently retired from the City of Santa Rosa where from 2005 to 2021 he served as their chief information officer and director, Information Technology Department. He has extensive experience in technology management and business leadership from his career with Agilent and Hewlett Packard where he held the position of vice president and general manager. Mr. McHenry currently serves as Board president of Robert Ferguson Observatory, and is a past Board member at the Redwood Empire Food Bank and KRCB North Bay Public Media.

Deborah A. Meekins *Retired, Banker*
Ms. Meekins was appointed to the Board in 2018 and serves as chair of the Board's Community Reinvestment Act and Compensation/Management Succession Committees. She also serves on the Audit, Technology and Trust Committees. Before retiring, Ms. Meekins served as the chief executive officer of Sonoma National Bank, executive vice president and retail banking director, chief production officer and California market president of Sterling Savings Bank from 1985 to 2012, and most recently as president and chief executive officer of Poppy Bank from 2012 to 2018. Ms. Meekins is the past chair of the Santa Rosa Chamber of Commerce, United Way, Santa Rosa Memorial Hospital Foundation, and the Rose Parade. She currently serves as the chair of Providence Santa Rosa Memorial Hospital's Community Board and Board member for the California Bankers Association.

James M. Ryan *President, Ryan Mortgage Company*
Mr. Ryan was elected to the Board in 1997 and is vice-chairman. In 2007, Mr. Ryan was named a Doyle Trustee. Mr. Ryan serves on the Board's Audit, Community Reinvestment Act, Compensation/Management Succession, Governance/Nominating, Loan, and Trust Committees. He is a graduate of California State University Sacramento and is a licensed real estate broker, certified public accountant (inactive) and a licensed general contractor. Mr. Ryan is the owner and president of both Ryan Mortgage Company, Inc. and Ryan Realty, Inc. in Santa Rosa. He serves on the Scholarship Committee at the Santa Rosa Junior College and on the Board of Directors of PEP Housing, a non-profit developer of affordable housing for seniors and veterans. He has also served as a director of the American Red Cross, Sonoma County Chapter, and numerous trade associations.

Troy J. Sanderson *President and CEO, Exchange Bank*
Mr. Sanderson was appointed to the Board and as president and chief executive officer in 2021. He also serves on the Board's Community Reinvestment Act, Loan, Technology, and Trust Committees. Mr. Sanderson joined Exchange Bank in 2018, and previously served as executive vice president and chief banking officer. He is a seasoned banker with over 30 years in commercial, mortgage and consumer lending, appraisal, training and development, retail banking, credit administration and executive leadership. Prior to joining Exchange Bank, he was executive vice president and chief credit officer of Bank of Rio Vista from 2011 to 2015, and that bank's president from 2015 until it was sold in 2018. A Sonoma County native, his family roots in the community go back over 100 years. Mr. Sanderson served for 10 years as an elected member of the Board of Education of the Petaluma City Schools District and is a past president of Petaluma National Little League. He currently serves on the Board for the Redwood Empire Food Bank and is a member of the American Bankers Association

Government Relations Council. He holds a Bachelor's degree in Business Administration from California State University, Sacramento and graduated with honors from the Pacific Coast Banking School at the University of Washington.

William R. Schrader *Retired, Banker*
Mr. Schrader was appointed to the Board in 2008. He joined Exchange Bank in 1978 and has served as senior loan officer and chief operating officer, and was president and chief executive officer from 2008 to 2014 when he retired from the Bank. Today, he serves as chairman of the Board and also serves on the Board's Audit, Community Reinvestment Act, Compensation/Management Succession, Governance/Nominating, Loan, Technology, and Trust Committees. In 2020, he was named a Doyle Trustee. Mr. Schrader is a graduate of St. Mary's College and received his master's from Golden Gate University. He is also a graduate of the Pacific Coast School of Banking. Mr. Schrader currently serves as a director for the Family Justice Center and his past community involvement includes Board chair and director positions for the YMCA, Santa Rosa Diocesan School Board, Hanna Boys Center, NAMI, Santa Rosa Community Health Center, California Bankers Association and past vice-chair for the Committee for the Shelterless (COTS). He also serves on the Scholarship Committee at the Santa Rosa Junior College and has past service on advisory Boards for Roseland University Prep High School, Sonoma State University's Graduate School of Business and Healdsburg Boys and Girls Club.

Marlene K. Soiland *President and CEO, Soiland Management Company*
Ms. Soiland was appointed to the Board in 1997 and is corporate secretary and chair of the Board's Trust Committee. Ms. Soiland also serves on the Board's Audit, Community Reinvestment Act, Compensation/Management Succession, Governance/Nominating, Loan, and Technology Committees. After graduation from Cal Poly in San Luis Obispo, she returned to Santa Rosa and her family business. She is currently president and owner of Soiland Management Co., Inc. Ms. Soiland is past president of the Sonoma County Alliance and currently serves on their Board and their Environmental and Small Business Grant Opportunities Committees. She has also been involved in several other community groups such as Sonoma County Innovation Council, Institute for Family Business, and Community Foundation Sonoma County.

Gregory S. Steele *Retired, Technology Executive*
Mr. Steele was appointed to the Board in 2020 and serves as chair of the Board's Corporate Governance and Nominating Committee. He also serves on the Board's Audit Committee and Tech Committee. Mr. Steele served as the chief executive officer of Nelson Staffing Sonoma from 2003 to 2005, chief operating officer of Advanced Fibre Communications from 1998 to 2001, and senior vice president of operations and engineering at Enphase Energy in Petaluma from 2008 to 2017. Mr. Steele has a long history of community service in Sonoma County. He has chaired the United Way of Sonoma County, the Wells Fargo Center for the Arts, and is currently Board president for the Children's Museum of Sonoma County. He also served on the Board for Catholic Charities of the Diocese of Santa Rosa and served as capital campaign co-chair for the Caritas Village Capital Campaign.

None of the directors listed above have been a party to bankruptcy, criminal or regulatory proceedings in the prior 5 years.

The Board of Directors unanimously recommends to the Shareholders a vote "FOR" the election of the above-listed persons as Directors for the Bank.

PROPOSAL TWO
NON-BINDING ADVISORY VOTE ON THE APPOINTMENT OF THE INDEPENDENT AUDITOR

The Audit Committee of the Board of Directors proposes and recommends that the shareholders approve the selection by the Committee of the firm of Crowe LLP to serve as the Bank's independent auditor for the 2024 fiscal year. The firm has served as independent auditors for the Bank since 2011. While not legally required, the Board is asking shareholders to ratify the Audit Committee's selection in order to give the shareholders a voice in the designation of auditors. If the resolution approving Crowe LLP as the Bank's independent auditor is rejected by the shareholders, the Committee will reconsider its choice of independent auditors. Even if the resolution is approved, the Audit Committee, in its discretion, may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Bank and its shareholders.

Proxies in the form solicited hereby which are returned to the Bank will be voted in favor of this non-binding proposal unless otherwise instructed by the shareholder. The affirmative vote of a majority of the shares of common stock cast at the meeting, in person or by proxy, and entitled to vote thereon is required to approve Proposal Two.

The Board of Directors unanimously recommends to the Shareholders a vote "FOR" the non-binding advisory proposal to approve the appointment of the Bank's independent auditor.

INFORMATION CONCERNING NON-DIRECTOR EXECUTIVE OFFICER

Shari J. DeMaris *Executive Vice President and Chief Operating Officer, Exchange Bank*
Ms. DeMaris joined Exchange Bank in October 2020 and was named Executive Vice President, Chief Financial Officer in January 2021. Ms. DeMaris was promoted to Chief Operating Officer in May 2023. She brings 25 years of technical accounting and financial leadership experience and is a licensed CPA. Previously, Ms. DeMaris held leadership roles at several public accounting and financial institutions including Hills Bank and Trust Company from 2005 to 2020, acting as chief financial officer from 2012 to 2020. She holds bachelor's degrees in both Accounting and Spanish from DePaul University and the University of Iowa, respectively. Active in the community, Ms. DeMaris serves on the Board of the Santa Rosa Symphony, including the Finance and Audit Committees.

None of the executive officers were selected pursuant to any arrangement or understanding other than with the directors and executive officers of the Bank acting within their capacities as such. There are no family relationships between any of the directors and executive officers of the Bank. There are no material proceedings to which any executive officer of the Bank or any associate of any executive officer of the Bank is a party or has an interest materially adverse to the Bank.

TRANSACTIONS WITH DIRECTORS AND OFFICERS

The Bank has had and expects in the future to have banking transactions in the ordinary course of its business with some of its Directors and Officers and their associates, including transactions with corporations or partnerships of which such persons are directors, officers, controlling shareholders, or partners on substantially the same terms (including interest rates and collateral) as those prevailing for comparable transactions with others. Management believes that in 2023 such transactions did not involve more than the normal risk of collectability or present other unfavorable features.

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

Board of Directors of the Bank

The Board of Directors of the Bank meets on a regularly scheduled basis. During 2023, the Board of Directors of the Bank held an annual meeting, one special meeting and twelve regular meetings. During 2023, all Directors of the Bank attended at least seventy-five percent of the total number of meetings of the Board and a majority of the committees to which such Directors were appointed. Although the Bank does not have a formal policy regarding attendance by Directors at annual shareholder meetings, such attendance is encouraged. In 2023, all of the Bank's Directors attended the annual shareholders' meeting.

The composition of the Board committees as of December 31, 2023 is shown in the following table:

Director Name	Corporate Governance & Nominating	Audit	CRA	Compensation	Loan	Technology	Trust
Bruce E. DeCrona (I)		Chair (A)		X		X	X
Steven G. Dutton			X		X		X
Gary T. Hartwick			X		Chair		X
Eric D. McHenry (I)			X			Chair	
Deborah A. Meekins (I)		X	Chair	Chair		X	X
James M. Ryan (I)	X	X(A)	X	X	X		X
Troy J. Sanderson			X		X	X	X
William R. Schrader (I)	X	X	X	X	X	X	X
Marlene K. Soiland (I)	X	X	X	X	X	X	Chair
Gregory S. Steele (I)	Chair	X				X	

(I) Independent Director
(A) Audit Committee Financial Expert
Chair Committee Chair
X Committee Member

The Board of Directors has established the Corporate Governance and Nominating Committee consisting of four non-employee Directors who are considered to be independent as defined under the rules of the FDIC and other applicable laws and regulations. The Corporate Governance and Nominating Committee assists in identifying individuals qualified to become Board members, recommends nominees for director, recommends the corporate governance guidelines applicable to the Bank, oversees an annual review of the Board's performance, recommends director nominees for each committee, recommends a determination of each outside director's "independence" under applicable rules and guidelines, oversees the Bank's engagement with shareholders and other interested parties concerning governance and other related matters, and oversees reputation risk related to the Committee's responsibilities. The Corporate Governance and Nominating Committee held three meetings in 2023. The Board of Directors has adopted a written charter for the Corporate Governance and Nominating Committee.

The Board of Directors of the Bank has established an Audit Committee. The Audit Committee is responsible for the engagement of the external audit firm and reviews the scope and results of the audits, the Bank's internal accounting controls and the professional services furnished by the independent auditor. All six members of the Audit Committee are "independent" as defined under the rules of the FDIC. Due to their experience as noted above, the Board has determined that Directors DeCrona and Ryan qualify as Audit Committee Financial Experts under applicable regulations. The Audit Committee met four times in 2023.

The Board of Directors of the Bank has established the Community Reinvestment Act Committee. The Community Reinvestment Act Committee is responsible for establishing an effective program to balance regulatory risk management, promotion of community well-being and development of profitable business through meeting community needs. The Community Reinvestment Act Committee met two times in 2023.

The Board of Directors of the Bank has established a Compensation and Management Succession Committee. The Compensation and Management Succession Committee establishes and monitors effective compensation packages for Bank management and the Board. The Compensation and Management Succession Committee met three times in 2023.

The Board of Directors of the Bank has established a Loan Committee. This Committee reviews and approves loans that are outside of the authority of Bank management's Loan Committee. The Loan Committee met three times in 2023. In addition, the Loan Committee frequently reviewed and approved loans via virtual vote.

The Board of Directors of the Bank has established a Technology Committee. The Technology Committee is responsible for reviewing the technical budget and projections, and being the Board's liaison for matters affecting the Bank's technology. The Technology Committee met four times in 2023.

The of Board of Directors of the Bank has established a Trust Committee. The Trust Committee oversees the activities of the Bank's Trust Department to assure that the department is administered in accordance with applicable laws and regulations and sound fiduciary principles. The Trust Committee met four times in 2023.

Directors Compensation Table

The following table provides information concerning the compensation of all the Directors other than Director Sanderson for the fiscal year ended December 31, 2023. Compensation information for Director Sanderson is discussed below in the section captioned "Summary of Cash and Certain Other Compensation Paid to Executive Officers."

Name	Fees or Earnings Paid in Cash ($)(1)	Other Compensation ($)		Total ($)
Bruce E. DeCrona	$ 102,000	$ -		$102,000
Steven G. Dutton	102,000	-		$102,000
Gary T. Hartwick	102,000	-		$102,000
Eric D. McHenry	102,000	-		$102,000
Deborah A. Meekins	102,000	-		$102,000
James M. Ryan	102,000	-		$102,000
William R. Schrader	287,000	17,641	(2)	$304,641
Marlene K. Soiland	109,200	-		$109,200
Gregory S. Steele	102,000	-		$102,000

NOTES:

(1) During 2023, each non-employee director received a $102,000 retainer. The Chairperson received an additional $185,000 retainer. The Corporate Secretary received an additional $7,200 retainer.

(2) Other compensation includes an auto allowance of $12,000, $3,156 in Bank-paid supplemental health care premium, $1,340 in health club dues and $785 in security and other services.

Former employee Directors of the Bank (Directors DeCrona, Hartwick and Schrader) may receive certain compensation related to their tenure as employees of the Bank. This compensation is not included above as it is not related to their Board duties.

The Compensation Committee periodically reviews the compensation levels of the Board of Directors. In its review, the committee looks to ensure that the compensation is fair, reasonably competitive, and commensurate to the responsibilities of both the individual directors as well as the Board in aggregate. The committee's compensation philosophy is to target director compensation at or near the median 50th percentile of regional peer group banks. In determining levels of cash compensation, the committee considered that, unlike most of its peer banks, the Bank does not issue equity-linked compensation to its directors. The committee believes paying total compensation near the 50th percentile is critical for attracting and retaining the qualified directors it needs to achieve and oversee its business objectives and good governance practices.

Independent assessments of market compensation are made with the most recent being a report commissioned in December 2022 from AON, a large independent compensation consulting firm. After the Compensation Committee's review of applicable rules for independence, the committee determined that there are no known conflicts of interest between AON and the Bank. AON services included a review and recommendation to refine a peer group based upon the Bank's and peers' size and total compensation levels provided by both.

The peer group including 16 peer banks located in the Pacific region with assets ranging evenly from $2 billion to $7.5 billion (the 50th percentile being $3.7 billion) were selected. None of the institutions had any unique business models or were targets of mergers or acquisitions. The Bank's director compensation ranked at the 50th percentile of these peers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Set forth in the following table is certain information on each person who is known to the Board of Directors to be the beneficial owner as of March 29, 2024 of more than 5% of the Bank's Common Stock, which is the only class of equity securities that the Bank has outstanding.

Amount and Nature of Beneficial Ownership

Name and Address of Beneficial Owner	Total Shares Beneficially Owned	Sold Voting and Investment Power	Shared Voting and Investment Power	Percent of Class
Frank P. Doyle Trust 545 4th Street Santa Rosa, CA 95401	864,764	-	864,764	50.44%

Two of the three trustees of the Frank P. Doyle Trust, Directors Ryan and Schrader, serve on the Bank Board of Directors, and may be deemed to share voting authority over such shares.

The following table sets forth as of March 28, 2024 the number of shares of the Bank's Common Stock beneficially owned by each Director. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules and includes shares over which the director has voting of dispositive authority and any shares the director has the right to acquire within 60 days of such date. The Bank's Bylaws note a 100-share ownership policy for the Directors.

Amount and Nature of Beneficial Ownership

Name	Total Shares Beneficially Owned	Sole Voting and Investment Power	Shared Voting and Investment Power (1)	Percent of Class
Bruce E. DeCrona	1,000	1,000	-	0.06%
Steven G. Dutton	374	374	-	0.02%
Gary T. Hartwick	100	100	-	0.01%
Eric D. McHenry	100	100	-	0.01%
Deborah A. Meekins	200	200	-	0.01%
James M. Ryan	868,957	4,193	864,764	50.69%
Troy J. Sanderson	450	450	-	0.03%
William R. Schrader	867,944	3,180	864,764	50.63%
Marlene K. Soiland	4,042	718	3,324	0.24%
Gregory S. Steele	300	300	-	0.02%
Total Directors as a Group	878,703	10,615	868,088	51.26%

Note (1): A total of 864,764 shares listed under Shared Voting and Investment Power for Directors Ryan and Schrader represent shares of the Frank P. Doyle Trust. Directors Ryan and Schrader are Trustees of the Frank P. Doyle Trust.

COMPENSATION AND MANAGEMENT SUCCESSION COMMITTEE

All compensation decisions affecting the executive officers of the Bank are made by the Board of Directors of the Bank. The Compensation and Management Succession Committee of the Board of Directors reviews and recommends to the Board of Directors the compensation of the Executive Officers identified in the Summary Compensation Table and other tables on the following pages of this Proxy Statement.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

In the following Compensation Discussion and Analysis section, the Bank provides information concerning compensation and benefits provided to the Executive Officers of the Bank. The Executive Officers are Troy J. Sanderson, President and Chief Executive Officer, and Shari J. DeMaris, Executive Vice President and Chief Operating Officer.

The Bank's overall compensation objectives are to pay salaries and provide benefits that are both fair and reasonable, consistent with the compensation practices of the financial services industry in general, and appropriate and competitive in the Bank's local marketplace. The Bank's goal is to attract, develop and retain high-caliber executives who are capable of increasing the Bank's performance for the benefit of its shareholders while maintaining the philosophy of community banking. Ultimately, the Bank desires to base its compensation on individual performance as it affects the overall financial results of the Bank. Specifically, the executive compensation program of the Bank has been designed to:

- provide a pay-for-performance policy that differentiates compensation amounts based upon corporate and individual performance;

- provide compensation opportunities comparable to those offered by other West Coast-based financial institutions and banks of similar asset size, thus allowing the Bank to compete for and retain talented executives who are essential to the long-term success of the Bank;

- maintain a corporate environment which encourages stability and long-term focus for the primary constituencies of the Bank, including shareholders, employees, customers, regulatory agencies and the communities it serves.

To achieve its objectives the Bank has structured its compensation program: (1) to reward current corporate and individual performance through salary increases and opportunities for cash bonuses; and (2) to reward long-term corporate and individual performance through participation in the Deferred Compensation Plan and participation in the Supplemental Executive Retirement Plan. The amounts and types of compensation paid in 2023 (as set forth below) fit into the Bank's overall compensation objectives by achieving those two objectives.

Decisions Regarding Composition of Total Compensation

The Compensation and Succession Management Committee (the "Committee"), which is comprised of the five non-employee Directors who have been deemed to be independent, has responsibility for implementing and overseeing the Bank's executive compensation program. In this respect, the Committee has strategic and administrative responsibility for a broad range of issues, including ensuring that the Bank compensates key management employees effectively and in a manner consistent with the Bank's compensation strategy. The Committee makes compensation recommendations to the Board of Directors with respect to each of the Executive Officers identified in the Summary Compensation Table and other tables on the following pages of this Proxy Statement. The Board of Directors approves the compensation for the Executive Officers.

The Committee's policy is to review management compensation at least annually. The Committee makes these reviews to ensure that management compensation is consistent with the Bank's compensation philosophies articulated above.

The factors the Committee considers in either determining or ratifying, as the case may be, the level and composition of compensation include, but are not limited to, the following: (1) the Bank's performance as compared to internally-established goals for the most recently ended fiscal year and to the performance of other West Coast-based financial institutions; (2) the individual officer's level of responsibility within the Bank; and (3) competitive compensation data. In addition, the Committee considers the financial performance for the current year, including the business plan containing the financial performance goals measured primarily in terms of earnings per share, growth of the Bank, asset quality, return on assets and return on stockholders' equity. The Committee also considers the financial budget for the upcoming fiscal year and the Bank's updated strategic plan. While the foregoing factors are not specifically weighted in the decision-making process, primary emphasis is placed on the Bank's performance during the previous year as compared to the internally-established goals. Although the Committee reviewed a number of objective factors in setting compensation for 2023, its final decision was based on a subjective determination. Details regarding the compensation of each of the Executive Officers are set forth in the tables that appear below.

In a very similar fashion to the Compensation Committee's approach with director compensation, an independent assessment of executive compensation for our President/CEO and Chief Operating Officer was commissioned on July 13, 2022 from the aforementioned AON Group. The same 16 peer institutions were used as peer comparables. After reviewing and considering this study, the Compensation Committee adjusted the cash compensation consisting of salary and bonus for our President/CEO and our CFO to place them near the 50^{th} percentile.

After considering all the compensation paid to the Executive Officers, the Committee determined that the compensation paid to the Executive Officers is reasonable and not excessive.

Elements of Compensation

The Bank provides a competitive mix of pay elements that align executive incentives with shareholder value. The executive compensation program includes salary, cash bonuses and long-term compensation.

The forms of compensation paid in 2023 are comprised of the following:

Salaries and cash bonuses: Salary is designed to provide competitive levels of compensation to executives based upon their experience, duties and scope of responsibility. The Bank pays salaries because it provides a basic level of compensation and is necessary to recruit and retain executives. An important aspect of salary is the Committee's ability to use annual base salary adjustments to reflect an individual's performance or changed responsibilities. Salary levels are also important because the Committee may tie the amount of long-term compensation to an executive's salary. In making its decisions regarding annual salary adjustments, the Committee reviews quantitative and qualitative performance factors as part of an annual performance appraisal. These are established for each executive position and the performance of the incumbent executive is evaluated annually against these standards. This appraisal is then integrated with market-based adjustments to salary ranges to determine if a base salary increase is merited.

Participation in the Supplemental Executive Retirement Plan: The SERP is a defined contribution plan designed primarily to reward eligible employees for long and loyal service by providing them with retirement benefits. The SERP is operated in accordance with the provisions of the written plan document. The SERP has a graduated vesting schedule with partial vesting occurring before the final vesting date. The final vesting term for the SERP varies, but is generally between 5 and 15 years.

Participation in the 401(k) and Profit Sharing Plan: The Bank offers a qualified 401(k) plan to provide a tax-advantaged savings vehicle. The Bank makes matching contributions to the 401(k) plan to encourage employees to save money for their retirement. This 401(k) plan and such matching contributions enhance the range of benefits offered to employees and the Bank's ability to attract and retain employees. The 401(k) covers all eligible employees of the Bank. Employees are eligible to participate in elective salary deferrals. Participants may contribute up to 80% of eligible compensation, limited to the maximum amount deductible under the Internal Revenue Code for employee salary reduction. The Plan provides for an employer-matching contribution equal to 100% of the employee's deferral, limited to deferrals of up to 3% of compensation, plus 50% of the employee's deferral up to an additional 2% of eligible compensation. Therefore, the maximum Bank's contribution is 4% of compensation. Subject to certain exceptions, the Bank's matching contributions are vested at three years of service.

The Profit Sharing Plan is operated in accordance with the provisions of the written plan document. Employees of the Bank are eligible to participate in the Profit Sharing Plan. The Profit Sharing Plan is designed primarily to reward eligible employees for long and loyal service by providing them with retirement benefits. The Profit Sharing Plan is a defined contribution plan and is primarily invested in assets other than equity securities of the Bank. Any benefits payable under the Profit Sharing Plan will be based solely upon the amounts contributed by the Bank for the benefit of a participant and any changes in the value of those contributions while they are held in the Profit Sharing Plan. The Profit Sharing Plan does not require or allow contributions by participating employees. Subject to certain exceptions, contributions to the Profit Sharing Plan are fully vested after three years of service with the Bank. In 2023, the Bank, as sponsor of the Profit Sharing Plan, made a 2.31% of compensation Profit Sharing Plan contribution. Subject to certain exceptions, the Bank's profit sharing contributions vest at three years of service.

Participation in the Deferred Compensation Program: This program allows the Executive Officers to elect to defer a portion of their salaried compensation for payment by the Bank at a subsequent date. The Executive Officers can defer up to 50% of their base compensation and up to 100% of any bonus into the Deferred Compensation Plan. Any amount so deferred is credited to the Executive Officer's deferred compensation account which is managed by the Bank's Trust Department. The amounts accrued in the Executive Officer's account are payable over 10 years in monthly installments at the time of the Executive Officer's retirement. The Bank does not make any contributions to the Deferred Compensation Program.

Life insurance and accidental death and dismemberment benefits: The Executive Officers receive a life insurance benefit of up to three times a maximum salary of $125,000, or $375,000, and an accidental death and dismemberment benefit. These benefits are part of a non-discriminatory plan available to all full-time employees and constitutes a base-level health and welfare benefit expected in today's market. The Executive Officers are also provided with split-dollar life insurance in the amount of $1,000,000.

Perquisites and other benefits: Perquisites and other benefits represent a very small part of the overall compensation package, and are offered only after consideration of business need. The Committee annually reviews the perquisites and other personal benefits that are provided to senior management.

SUMMARY COMPENSATION PAID TO EXECUTIVE OFFICERS

Overview

The following sections provide a summary of cash and certain other compensation the Bank paid for the year ended December 31, 2023 to the Executive Officers.

Summary Compensation Table

The table below summarizes the total compensation paid to each of the Executive Officers for the last two fiscal years. The Bank has not entered into employment agreements with its Executive Officers. When setting the total compensation for each of the Executive Officers, the Committee reviews information concerning the Executive's current compensation and all other compensation.

Name/ Position with Bank	Year	Salary ($)(1)	Bonus ($)(1)(2)	All Other Compensation ($) (3)	Total Compensation ($)
Troy J. Sanderon	2023	$ 602,043	$ 200,600	$ 52,092	$ 854,735
President and CEO	2022	500,000	320,500	50,647	871,147
Shari J. DeMaris	2023	410,552	1,100	41,192	452,844
EVP and COO	2022	323,917	223,000	37,659	584,576

NOTES:

(1) Compensation deferred at the election of the Executive Officer pursuant to the Bank 401(k) plan and deferred compensation plan is included in salary and bonus totals.

(2) For Mr. Sanderson, bonus amounts paid in the year include amounts that relate to bonus amounts earned in a prior year. In 2023, $199,500 of the total $200,600 bonus amount relates to bonus earned in 2022. In 2022, $120,000 of the total $320,500 bonus amount relates to bonus earned in 2021.

(3) For each of the Executive Officers, the figures shown consist of contributions in the following amounts made by the Bank or paid in the past two fiscal years which amounts are quantified in the table below.

	Year	Defined Contribution on Profit Sharing Plan	401(k) Plan	Country Club Membership	Life Insurance and ADD Premiums	Supplemental Health Care Premiums	Auto Allowance	Total All Other Compensation
Troy J. Sanderon	2023	$ 7,625	$ 13,200	$ 8,640	$ 607	$ 7,020	$ 15,000	$ 52,092
	2022	5,800	12,200	6,984	607	10,056	15,000	50,647
Shari J. DeMaris	2023	7,625	13,200	6,624	607	3,516	9,620	41,192
	2022	5,800	12,200	5,916	607	3,516	9,620	37,659

AUDIT COMMITTEE

Audit Committee Report

March 19, 2024

To the Board of Directors:

The Audit Committee consists of the following members of the Board of Directors: Bruce E. DeCrona, Deborah A. Meekins, James M. Ryan, William R. Schrader, Marlene K. Soiland and Gregory S. Steele. As noted above, the Board of Directors has determined that Mr. DeCrona, Chairperson of the Audit Committee, and Mr. Ryan are the "financial experts" as defined under Part 363 of FDIC regulations. Each of the members of the Audit Committee is independent as defined under the rules of the FDIC and other applicable laws and regulations.

The Audit Committee has:

- Reviewed and discussed the Bank's audited financial statements as of and for the year ended December 31, 2023 with its management and Crowe, LLP, the Bank's independent auditor;

- Discussed with Crowe, LLP the matters required to be discussed by the Public Company Accounting Oversight Board and Part 363 of the FDIC's regulations; and

- Received and reviewed the written disclosures from Crowe, LLP required by the application requirements of the Public Company Accounting Oversight Board and Part 363 of the FDIC's regulations regarding the independent accountant's communications with the Audit Committee concerning independence and we have discussed with the auditors the auditor's independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Bank's Annual Report for the year ended December 31, 2023.

Audit and Other Fees

Aggregate fees billed to the Bank for the years ending December 31, 2023 and 2022 by the Bank's external audit firm are presented in the table below.

	Years Ended December 31,	
	2023	**2022**
Audit fees	$ 236,500	$ 215,000
Tax fees	29,700	26,000
Other fees	22,707	6,400
	$ 288,907	$ 247,400

INDEPENDENT AUDITOR

The Bank has engaged Crowe LLP as its external audit firm for 2023. Representatives of Crowe LLP are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

PROPOSALS BY SHAREHOLDERS

The Bank's bylaws govern director nominations made by shareholders.

Any common stock shareholder may nominate a person for election to the Board of Directors at any meeting of shareholders called for the election of directors, provided that the nomination is received by the President not less than thirty-five (35) or more than sixty (60) days prior to any such meeting. To be eligible, all nominees submitted by shareholders must satisfy the residency requirements in Section 3.2 of the bylaws and include the name and address of the nominee(s) and all other information required by the bylaws.

Section 3.3 of the Bank's bylaws provides: "Nominations, other than those made by the Board of Directors shall be made in writing and shall be delivered or mailed to the President of the Corporation not less than thirty-five (35) days nor more than sixty (60) days prior to any meeting of shareholders called for the election of directors, provided, however, that if less than twenty-one (21) days' notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Corporation not later than the close of business on the seventh (7th) day following the day on which the notice of meeting was mailed. Such notification shall contain the following information as to each proposed nominee and as to each person, acting alone or in conjunction with one or more other persons, in making such nomination or in organizing, directing or financing such nomination or solicitation of proxies to vote for the nominee:

(a) the name, age, birthdate, residence address and business address of each proposed nominee and each such person and the date as of which such nominee commenced residency at such residence address;

(b) the principal occupation or employment, the name, type of business and address of the organization or other entity in which such employment is carried on of each proposed nominee and of each such person;

(c) if the proposed nominee is an attorney, a statement as to whether or not either he or she or any firm with whom he or she has a relationship as partner, associate, of counsel, employee, or otherwise, acts as legal counsel for any banking corporation, affiliate or subsidiary thereof, bank holding company, industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation;

(d) a statement as to each proposed nominee and a statement as to each such person stating whether the nominee or person concerned has been a participant in any proxy contest within the past ten years, and, if so, the statement shall indicate the principals involved, the subject matter of the contest, the outcome thereof, and the relationship of the nominee or person to the principals;

(e) the amount of stock of the Corporation owned beneficially, directly or indirectly, by each proposed nominee or by members of his or her family residing with him or her and the names of the registered owners thereof;

(f) the amount of stock of the Corporation owned of record but not beneficially by each proposed nominee or by members of his or her family residing with him or her and by each such person or by members of his or her family residing with him or her and the names of the beneficial owners thereof;

(g) if any shares specified in (e) or (f) above were acquired in the last two years, a statement of the dates of acquisition and amounts acquired on each date;

(h) a statement showing the extent of any borrowings to purchase shares of the Corporation specified in (e) or (f) above acquired within the preceding two years, and if funds were borrowed otherwise than pursuant to a margin account or bank loan in the regular course of business of a bank, the material provisions of such borrowings and the names of the lenders;

(i) the details of any contract, arrangement or understanding relating to the securities of the Corporation, to which each proposed nominee or to which each such person is a party, such as joint venture or option arrangements, puts or calls, guaranties against loss, or guaranties of profit or arrangements as to the division of losses or profits or with respect to the giving or withholding of proxies, and the name or names of the persons with whom such contracts, arrangements or understandings exist;

(j) the details of any contract, arrangement, or understanding to which each proposed nominee or to which such person is a party with any banking corporation, affiliate or subsidiary thereof, bank holding company, industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation, or with any officer, director, employee, agent, nominee, attorney, or other representative of such covered entity;

(k) a description of any arrangement or understanding of each proposed nominee and of each such person with any person regarding future employment or with respect to any future transaction to which the Corporation will or may be a party;

(l) a statement as to each proposed nominee and a statement as to each such person as to whether or not the nominee or person concerned will bear any part of the expense incurred in any proxy solicitation, and, if so, the amount thereof;

(m) a statement as to each proposed nominee and a statement as to each such person describing any conviction for a felony that occurred during the preceding ten years involving the unlawful possession, conversion or appropriation of money or other property, or the payment of taxes;

(n) the total number of shares that will be voted for each proposed nominee;

(o) the amount of stock, if any, owned, directly or indirectly, by each proposed nominee or by members of his or her family residing with him or her, in any banking corporation, affiliate or subsidiary thereof, bank holding company, industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation; and

(p) the identity of any banking corporation, affiliate or subsidiary thereof, or bank holding company or industrial loan company, savings bank or association or finance company, other than this Corporation or any affiliate or subsidiary of this Corporation, as to which such nominee or any other such person serves as a director, officer, employee, agent, consultant, advisor, nominee or attorney, together with a description of such relationship. The Chairman of the Board (or other person presiding at the meeting in accordance with the bylaws) may, in his or her discretion, determine and declare to the meeting that a nomination not made in accordance with Sections 3.2 and 3.3 of the bylaws shall be disregarded.

COMMUNICATION WITH THE BOARD OF DIRECTORS

The Board of Directors has established a process for shareholders of the Bank to send communications to the Board. Any shareholder desiring to communicate with the Board, or one or more individual Board members may write to Marlene Soiland at the following address:

Exchange Bank Board of Directors
c/o Marlene Soiland, Corporate Secretary
PO Box 403
Santa Rosa, CA 95402

OTHER MATTERS

Management of the Bank knows of no other matters which will be presented for consideration at the 2024 Annual Meeting of Shareholders other than those stated in the Notice of 2024 Annual Meeting, which is part of this Proxy Statement, and management does not intend to present any such other business. If any other matters do properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote thereon in accordance with their judgment. The proxy will also have the power to vote for the adjournment of the meeting from time to time.

A copy of the Consolidated Financial Statements of the Bank for the year ended December 31, 2023, is being mailed to shareholders together with this Proxy Statement. Such report is not incorporated in this Proxy Statement and is not to be considered a part of the proxy soliciting material.

By Order of the Board of Directors

April 5, 2024
Santa Rosa, California

EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

EXCHANGE BANK AND SUBSIDIARIES
Santa Rosa, California

FINANCIAL STATEMENTS
December 31, 2023 and 2022

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and
Board of Directors
Exchange Bank and Subsidiaries
Santa Rosa, California

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Exchange Bank and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, 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 Exchange Bank and Subsidiaries as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended 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, Exchange Bank and Subsidiaries' 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 March 20, 2024 expressed an unmodified opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Exchange Bank and Subsidiaries 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 for Opinion

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

(Continued)

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.

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 Exchange Bank and Subsidiaries' 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 Exchange Bank and Subsidiaries' 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
March 20, 2024

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(In thousands, except share and par value amounts)

	2023	2022
ASSETS		
Cash and due from banks	$ 89,354	$ 48,129
Short-term investments	257	244
Total cash and cash equivalents	89,611	48,373
Interest-bearing deposits in other financial institutions	-	1,000
Available-for-sale investment securities	1,497,445	1,575,648
Loans and leases	1,594,677	1,509,908
Less allowance for credit losses	(41,268)	(43,540)
Net loans and leases	1,553,409	1,466,368
Federal Home Loan Bank stock	15,000	15,000
Bank premises and equipment, net	17,472	17,217
Bank owned life insurance	68,887	66,597
Other real estate owned	-	310
Accrued interest receivable and other assets	126,748	143,884
Total assets	$ 3,368,572	$ 3,334,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 977,426	$ 1,189,742
Interest bearing	1,861,201	1,876,539
Total deposits	2,838,627	3,066,281
Other borrowings	225,000	20,000
Accrued interest payable and other liabilities	49,721	46,092
Total liabilities	3,113,348	3,132,373
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, 1,000,000 shares authorized: None issued or outstanding	-	-
Common stock, $2.50 par value; 3,000,000 shares authorized; 1,714,344 shares issued and outstanding	4,286	4,286
Additional paid-in capital	46,026	46,026
Retained earnings	316,652	305,373
Accumulated other comprehensive income (loss), net of taxes	(111,740)	(153,661)
Total stockholders' equity	255,224	202,024
Total liabilities and stockholders' equity	$ 3,368,572	$ 3,334,397

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2023 and 2022
(In thousands, except per share amounts)

	2023	2022
Interest income:		
Interest and fees on loans and leases	$ 81,919	$ 71,437
Interest on investment securities:		
Taxable	31,125	27,353
Exempt from Federal income taxes	2,504	2,420
Total interest income	115,548	101,210
Interest expense:		
Interest on deposits	16,716	2,035
Interest on borrowings	8,342	40
Total interest expense	25,058	2,075
Net interest income before provision for loan and lease losses	90,490	99,135
Provision for credit losses	-	-
Net interest income after provision for loan and lease losses	90,490	99,135
Non-interest income:		
Service charges and fees	3,265	3,279
Trust income	9,787	10,024
Merchant discount and interchange fees	5,311	5,200
Income from bank owned life insurance	2,255	2,121
Gain on sale of other real estate owned	694	-
Other income	2,348	3,744
Total non-interest income	23,660	24,368
Non-interest expense:		
Salaries and employee benefits	41,110	40,279
Occupancy and equipment	8,160	7,621
Professional fees	7,014	7,855
FDIC assessments	1,574	990
Pension Plan retirement	8,398	-
Other expenses	20,182	16,672
Total non-interest expense	86,438	73,417
Income before provision for income taxes	27,712	50,086
Provision for income taxes	7,519	12,606
Net income	$ 20,193	$ 37,480
Basic and diluted earnings per common share	$ 11.78	$ 21.86

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Net Income	$ 20,193	$ 37,480
Other comprehensive income:		
Unrealized gains/losses on securities:		
Unrealized holding gains (losses) arising during the period	50,191	(200,305)
Tax effect	(14,841)	59,219
Changes in unrealized gain (loss) on available-for-sale investment securities, net of tax	35,350	(141,086)
Defined benefit pension plans:		
Net gains (losses) arising during the period	6,351	(6,611)
Prior service reclass	2,665	-
Tax effect	(2,665)	1,954
Changes in defined benefit pension plans, net of tax	6,351	(4,657)
Change in deferred compensation trust liabilities	312	(729)
Tax effect	(92)	215
Changes in deferred compensation trust, net of tax	220	(514)
Other comprehensive income (loss)	41,921	(146,257)
Total Comprehensive Income (loss)	$ 62,114	$ (108,777)

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Stockholders' Equity
Balance, January 1, 2022	$ 4,286	$ 46,026	$ 276,294	$ (7,404)	$ 319,202
Net Income	-	-	37,480	-	37,480
Other comprehensive (loss)	-	-	-	(146,257)	(146,257)
Cash Dividends ($4.90 per share)	-	-	(8,401)	-	(8,401)
Balance, December 31, 2022	$ 4,286	$ 46,026	$ 305,373	$ (153,661)	$ 202,024
Net Income	-	-	20,193	-	20,193
Other comprehensive income	-	-	-	41,921	41,921
Cash Dividends ($5.20 per share)	-	-	(8,914)	-	(8,914)
Balance, December 31, 2023	**$ 4,286**	**$ 46,026**	**$ 316,652**	**$ (111,740)**	**$ 255,224**

See accompanying notes to consolidated financial statements.

EXCHANGE BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities:		
Net Income	$ 20,193	$ 37,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,278	2,243
Provision for loan losses	-	-
Deferred income tax expense (benefit)	(7,833)	1,007
Gain on sale of guaranteed portion of SBA loans	-	(490)
Accretion of discounts and amortization of premiums on investment securities	5,300	6,494
Net change in deferred loan origination fees	325	(2,136)
Net loans originated with intent to sell and sold	-	(2,414)
(Increase) Decrease in bank owned life insurance, net of expenses	(1,583)	271
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	18,997	(17,047)
Accrued interest payable and other liabilities	1,333	7,660
Net cash provided by operating activities	39,010	33,068
Cash flows from investing activities:		
Decrease in Interest-bearing deposits in other financial institutions	1,000	16,000
Proceeds from maturities of investment securities	135,531	175,096
Purchase of investment securities	(12,440)	(548,761)
Purchase of Federal Home Loan Bank (FHLB) stock	-	(535)
Purchase of bank owned life insurance	(707)	(2,415)
Net (increase) decrease in loans and leases	(87,366)	4,933
Proceeds from sale of other real estate owned	310	-
Purchase of bank premises and equipment	(2,533)	(744)
Net cash (used in) investing activities	33,795	(356,426)
Cash flows from financing activities:		
Net (decrease) in demand, interest bearing and savings deposits	(443,333)	(91,040)
Net increase (decrease) in time deposits	215,680	(21,797)
Net increase in FRB borrowing	225,000	-
Net (decrease) increase In short-term FHLB advances	(20,000)	20,000
Cash paid for dividends	(8,914)	(8,401)
Net cash (used in) financing activities	(31,567)	(101,238)
Increase (decrease) in cash and cash equivalents	41,238	(424,596)
Cash and cash equivalents, beginning of year	48,373	472,969
Cash and cash equivalents, end of year	$ 89,611	$ 48,373
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 24,568	$ 2,980
Income taxes	$ 14,350	$ 12,800

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: Exchange Bank (the "Bank"), a California corporation, and its wholly-owned subsidiaries, A. J. Ventures, Inc., AJV-Alderbrook LLC conduct their business from their headquarters in Santa Rosa, California. The Bank is a full service bank providing a range of commercial and retail banking services to individuals and businesses. The Bank, through its loan portfolio, has geographically concentrated credit risk in Sonoma County. Additionally, the loan portfolio has a concentration in loans secured by real estate.

The accounting and reporting policies of the Bank and its subsidiaries conform with accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry. A summary of the more significant accounting and reporting policies follows:

Principles of Consolidation: The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, A. J. Ventures, Inc. and AJV-Alderbrook LLC. The subsidiaries are used to hold real estate properties acquired through, or in lieu of, loan foreclosure. All intercompany accounts and transactions have been eliminated upon consolidation.

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 and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the consolidated statement of cash flows, the Bank considers all highly liquid investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents include cash, due from banks, money market investments and Federal funds sold. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and sold.

Investment Securities: The Bank classifies its investment securities as either available-for-sale or held-to-maturity at the time of purchase. Available-for-sale investment securities are measured at fair value with a corresponding recognition of the net unrealized holding gain or loss, net of income taxes, within accumulated other comprehensive income (loss), which is a separate component of stockholders' equity, until realized. Held-to-maturity investment securities are measured at amortized cost, based on the Bank's positive intent and ability to hold such securities to maturity. At December 31, 2023 and 2022, the Bank did not hold any held-to-maturity investment securities.

Premiums on investment securities are amortized to the earliest call date and discounts are accreted over the period to maturity of those securities. Interest income is recognized when earned. Realized gains and losses on the sale of investment securities are recorded on the trade date and are computed using the specific identification method for determining the cost of investment securities sold.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For available-for-sale investment securities in an unrealized loss position, the Bank first assesses whether it intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale investment securities that do not meet the aforementioned criteria the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. The Bank measures the allowance for credit losses on available-for-sale investment securities by performing an assessment of unrealized losses in the portfolio to evaluate potential credit loss existence. The review is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. If credit-related impairment is identified, the Bank would record an allowance for credit loss related to the appropriate available-for-sale investment securities as a contra asset. Changes in the allowance for credit losses are recorded as credit loss expense (or reversal).

<u>Federal Home Loan Bank (FHLB) Stock</u>: 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. Both cash and stock dividends are reported as income.

<u>Loans and Leases</u>: Loans that management has the ability and intent to hold for the foreseeable future or maturity or payoff are reported at the principal amounts outstanding, adjusted for unamortized discounts and premiums and net of deferred loan origination fees and costs, write-downs and the allowance for credit losses. Direct financing leases are carried net of unearned income. Income from leases is recognized by a method that approximates a level yield on the outstanding net investment in the lease.

The Bank may charge fees for originating loans and leases. These origination and commitment fees, net of certain related direct loan and lease origination costs, are deferred. The net deferred fees or costs are recognized as an adjustment of yield over the contractual life of the loan or lease using the interest method. The unamortized balance of deferred fees and costs is reported as a component of net loans and leases.

For all classes of loans, interest is accrued daily based upon outstanding loan and lease balances. However, when, in the opinion of management, loans or leases become 90 days past due, unless the loan is well-secured and in process of collection or are individually evaluated and the future collectability of interest and principal is in serious doubt, a loan or lease is placed on nonaccrual status and the accrual of interest income is suspended. 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 leases, or payments received on nonaccrual loans or leases for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Generally, loans and leases are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Accrued interest receivable totaled $12,170 and $11,580 at December 31, 2023 and 2022, respectively and was reported in Accrued interest receivable and other assets on the consolidated balance sheets.

<u>Allowance for Credit Losses – Loans</u>: Management estimates the allowance for credit loss ("ACL") balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank is using a discounted cash flow model that incorporates a probability of loss and loss given default. The allowance for collectively evaluated loans is comprised of the historical, macroeconomic and qualitative components. The historical loss component begins with the baseline loss rates calculated using the Bank's average quarterly historical loss information for an economic cycle. The Bank utilizes a 16 year look back for historical purposes. The historical loss rates are applied to each loan's estimated cash flows over the life of the loan under the remaining life method to determine the historical component of the estimated loss for each loan. Estimated cash flows consider the principal and interest in accordance with the contractual term of the loan and estimated prepayments. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank. Prepayments are established for each segment based on historical averages for the segment, which management believes is an accurate representation of future prepayment activity.

The macroeconomic component considers the forecasted direction of the economic and business environment and its likely impact on the estimated allowance as compared to the historical losses over the reasonable and supportable time frame. The Bank has elected to forecast the first four quarters and revert on a straight-line basis over eight quarters. The Bank uses macroeconomic scenarios from independent third parties, including unemployment rate, gross domestic product, and housing price index. Macroeconomic factor multipliers are determined through regression analysis and applied to loss rates for each segment of loans with similar risk characteristics. The impact of those macroeconomic factors on each segment, both positive or negative, using the reasonable and supportable period, are added to the calculated historical loss component of the allowance.

The third component of the Bank’s ACL model incorporates qualitative factors. Historical information and experiences provide a basis for the ACL calculation; however, they may not incorporate new risks that may be identified in the portfolio. As such, management uses qualitative factors to adjust for events and circumstances that may impact the future expected credit loss. Qualitative adjustments include, but are not be limited to, factors such as: (i) changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices, (ii) changes in international, national, regional, and local conditions, (iii) changes in the nature and volume of the portfolio and terms of loans, (iv) changes in the experience, depth, and ability of lending management, (v) changes in the volume and severity of past due loans and other similar conditions, (vi) changes in the quality of the organization's loan review system, (vii) changes in the value of underlying collateral for collateral dependent loans, (viii) the existence and effect of any concentrations of credit and changes in the levels of such concentrations, (ix) the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses. Management reviews the need for an appropriate level of qualitative adjustments on a quarterly basis, and as such, the amount and allocation of qualitative adjustments may change in future periods.

Management disaggregated the Bank’s loan portfolio into material segments of like-kind loans for collective evaluation. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the portfolio segments by Federal Call Code based on the underlying collateral and measures the allowance for credit losses. For reporting purposes, these Federal Call Codes are aggregated under the following portfolio segments:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate–Commercial – This segment is comprised of loans used to finance the acquisition of commercial real property. These loans are secured by first liens against the underlying real property. The inherent risk is driven by the borrower's capacity to service the debt combined with the value of the property collateral relative to the loan balance. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Real Estate–Construction – This segment is comprised of loans used to acquire, develop, and/or construct residential housing or commercial property types, including office, industrial and retail. Inherent risk is high as this segment evidences construction risk and absorption risk. Economic trends including consumer spending, consumer confidence, business confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair absorption and compromise the borrower's capacity to service the underlying debt.

Commercial – These loans are primarily for business purposes and are typically secured by personal property and in some cases by junior liens against real property. Credit risk is mitigated by financial covenants and financial reporting requirements. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Lease Financing – This segment is primarily comprised of smaller business purpose commitments used to finance an array of business equipment. Leases are amortized over a specific period of time. Economic trends including consumer spending, consumer confidence, market interest rates, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Consumer – This segment is comprised of single family 1-4 residential mortgages, installment and home equity loans and lines used to finance direct consumer purchases and/or establish lines of credit for consumer purposes. Economic trends including consumer spending, consumer confidence, market interest rates, trends in housing values, and general economic growth are closely correlated to the credit quality of these loans. A sustained decline in the economy can impair a borrower's capacity to service the underlying debt.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. When the discounted cash flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

The allowance for individually evaluated loans is calculated using either the collateral value method, which considers the likely source of repayment as the value of the collateral less estimated costs to sell, or the net present value method, which considers the contractual principal and interest terms and estimated cash flows available from the borrower to satisfy the debt. Nonaccrual modified loans are individually evaluated for credit loss except if the original interest rate is used to discount the expected cash flows, not the rate specified in the restructuring.

In general, management's estimate of the ACL on loans uses relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Bank's primary regulators, the FDIC and the California Department of Business Oversight, 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.

Loan Held for Sale and Servicing: Included in the portfolio are loans guaranteed by the Small Business Administration (SBA) that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market value. Fair value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is recorded at fair value with the Bank earning future servicing income. Gains and losses are recognized based on the difference between the selling price and the fair value of servicing assets or liabilities and the allocated carrying value of the loans sold. At

December 31, 2023 and 2022 the balance of loans originated and unsold under the SBA program totaled $15,696 and $5,926, respectively. Management has determined that the unsold loans originated through the SBA program were not material for disclosure as held for sale at December 31, 2023 and 2022.

Loans held for sale subsequently transferred to the loan portfolio are transferred at the lower of cost or fair value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at fair value and are subsequently amortized into non-interest income in proportion to and over the period of the related net servicing income or expense. SBA loans with unpaid balances of approximately $48,032 and $63,739 were being serviced for others at December 31, 2023 and 2022, respectively. Servicing assets at December 31, 2023 and 2022 and servicing fee income net of servicing rights amortization during the years ended December 31, 2023 and 2022 were not material for disclosure.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: 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 on off-balance sheet credit exposures 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. Management uses loss rates determined on the collective or pooled loan allowance for credit losses to estimate the exposure related to off-balance sheet. Commitments are similarly pooled as described above.

Other Real Estate Owned: Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of real estate owned, along with related expenses from operations, are charged to noninterest expense as incurred.

Bank Premises and Equipment: Bank premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line basis over the lesser of the life of the lease or the estimated useful lives of the assets, ranging from 3 to 10 years for furniture and equipment, 5 to 10 years for leasehold improvements and 10 to 40 years for premises. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

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.

Retirement Plan and Postretirement Healthcare Plan: Effective as of June 30, 2023, the Bank completed the planned termination of its defined benefit pension plan. See Footnote 12. The pension plan covered all qualified personnel employed for the minimum required term of one year. Benefits were based on years of service and compensation projected to the separation date. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. It was the Bank's policy to contribute annually an amount at least equal to the minimum required by law. During 2007, the Plan was amended to freeze future benefit accruals for participants who had less than 15 years of service and age plus years of service less than 60. The plan was also amended to limit cost-of-living adjustments for continuing active participants. The amendments were expected to significantly reduce Plan liability and future net period pension costs.

In order to comply with ERISA requirements when the number of Plan participants fell below 50, effective December 31, 2016, the Plan was further amended to complete the freeze of future benefit accruals for all remaining Grandfathered Plan Participants (those plan participants that met the rule of eligibility during 2007 and continued to accrue plan benefits). Effective December 31, 2016, (the “Grandfathered Freeze Date”), Service, Credited Service, Average Compensation and Covered Compensation was frozen for the remaining Grandfathered Plan Participants. The changes described in the plan freeze above, only affected future benefits that had not yet accrued. They did not affect any benefits that both active and retired employees had already accrued and earned. Until termination, the Plan continued to operate as an ERISA qualified defined benefit plan, with the Bank maintaining a fiduciary obligation to manage the assets and provide future benefits to all active and retired plan participants and their beneficiaries under existing terms. The amendments as described above were expected to significantly reduce Plan liability and future net periodic pension costs.

In addition, the Bank sponsored a defined benefit postretirement healthcare plan that covered both salaried and non-salaried employees. The Plan provides medical benefits through health maintenance organizations. The Plan is funded by a voluntary employee beneficiary association (VEBA) trust maintained by the Bank. The contribution level for a retiree is based on a percentage of premium that varies according to the retiree's years of service with the Bank. The Bank's contribution for dependents is 50% of the Bank's share of the retiree's annual premium. The portion paid by the Bank is limited to 200% of the 1991 premium. Future cost-sharing plans are not expected to change from the current stated policy in the written plan. In addition, for the group of retirees that retired prior to January 1, 1991, the retiree medical benefit will be paid fully by the Bank for the life of the retiree and dependent. For employees retiring prior to January 1, 1992, or active employees with more than 25 years of service as of December 31, 1991, the 200% limit on lifetime benefits will not apply and the Bank will pay 100% of the retiree's premium and 50% of the dependent's premium. Effective December 31, 2007, the Plan was amended to cover only active employees who had at least 15 years of service and age plus years of service more than 60. The Plan was also amended to limit the maximum reimbursement amount to grandfathered retirees. As of November 1, 2021, the Plan was amended and is no longer a fully insured medical plan nor a self-funded dental and vision plan for its retirees. After the amendment, the Plan consists of individual retiree health reimbursement accounts to help eligible retirees pay for medical, dental, vision and prescription drug plans. The amendments are expected to significantly reduce Plan liability and future net period costs.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postretirement Benefits: The Bank has established deferred compensation and salary continuation agreements providing nonqualified defined benefit retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased single premium life insurance policies on each participant. The salary continuation agreements are accounted for by accruing a liability based upon the present value of each individual's benefit at retirement age and recognizing the related cost of these benefits over the term of employment. The single payment premium for the life insurance policies is recorded based on the cash surrender values of the policies adjusted for income earned on the investment and expense related to mortality costs.

The Bank also has endorsement split-dollar life insurance agreements with certain employees whereby the Bank has effectively agreed to maintain a life insurance policy during the employees' postretirement period.

The Bank is accruing, over the employees' service period, a liability for the actuarial present value of future costs to maintain life insurance during the employees' postretirement period.

Income Taxes: Income tax expense is the total of 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 tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates which are expected to be applied 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. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon their analysis of available evidence, management determined that it is "more likely than not" that all of the deferred income tax assets as of December 31, 2023 and 2022 will be fully realized and therefore no valuation allowance was recorded.

The Bank 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. The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: Earnings per common share is computed by dividing net income by the weighted average number of shares outstanding during the year, which was 1,714,344 for 2023 and 2022, respectively. There were no dilutive shares or share equivalents.

Comprehensive Income: Comprehensive income includes net income and other comprehensive income. Other comprehensive income for the Bank includes unrealized gains and losses on investment securities classified as available-for-sale, and changes in the funded status of defined benefit pension plans and the deferred compensation trust.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising: Advertising costs are charged to expense in the period incurred and totaled $1,121 and $869 for the years ended December 31, 2023 and 2022, respectively.

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.

Subsequent Events: The Bank reviewed all events occurring from December 31, 2023 through March 20, 2024, the date the financial statements were available to be issued. There were no subsequent events that were considered necessary for disclosure and there were no subsequent events requiring accrual.

Impact of New Accounting Standards:

ASU 2016-13, Financial Instruments – Credit Losses. In June 2016, 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, held-to maturity debt securities, and reinsurance receivables. 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. The Bank adopted ASU 2016-13 on January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost such that prior period amounts were not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles (“GAAP”). The adoption was considered immaterial.

ASU 2022-02, Financial Instruments – Credit Losses. Troubled Debt Restructurings and Vintage Disclosures was issued in March 2022. The ASU eliminates the accounting guidance for TDR loans by creditors while enhancing requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulties. The Bank adopted ASU 2022-02 as of January 1, 2023 and considered the adoption immaterial.

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(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS

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.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

Assets Recorded at Fair Value - The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2022 and 2021:

Recurring Basis

	2023			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 562,381	$ -	$ 562,381	$ -
Obligations of states and political subdivisions	239,424	-	239,424	-
Government sponsored entities residential mortgage-backed securities	675,766	-	675,766	-
U.S. Treasuries	13,676	-	13,676	-
Other securities	6,198	-	6,198	-
Total assets measured at fair value	$ 1,497,445	$ -	$ 1,497,445	$ -

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

	2022			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 542,473	$ -	$ 542,473	$ -
Obligations of states and political subdivisions	244,619	-	244,619	-
Government sponsored entities residential mortgage-backed securities	752,911	-	752,911	-
U.S. Treasuries	29,500	-	29,500	-
Other securities	6,145	-	6,145	-
Total assets measured at fair value	$ 1,575,648	$ -	$ 1,575,648	$ -

Fair values for available-for-sale investment securities are based on quoted market prices for similar securities.

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

	2023			
	Fair Value	Level 1	Level 2	Level 3
Collateral dependent loans:				
Real estate – commercial	$ 3,009	$ -	$ -	$ 3,009
Commercial	3,937	-	-	3,937
Lease financing	46	-	-	46
Consumer	552	-	-	552
Total assets measured at fair value on a non-recurring basis	$ 7,544	$ -	$ -	$ 7,544

	2022			
	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Real estate – commercial	$ 278	$ -	$ -	$ 278
Commercial	962	-	-	962
Lease financing	86	-	-	86
Consumer	2,635	-	-	2,635
Total assets measured at fair value on a non-recurring basis	$ 3,961	$ -	$ -	$ 3,961

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Individually evaluated loans that are collateral dependent and have been adjusted to fair value based on the estimated fair value of the underlying collateral, less estimated selling costs. If the Bank determines that the value of these loans is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for credit losses. Total loss of $5 represents charges recognized on collateral dependent loans during the year ended December 31, 2023. For the year ended December 31, 2022, total losses of $5 represents impairment charges recognized on impaired loans during the year.

Management used the following methods to estimate the fair value of each class of assets above:

Income Approach: Fair value is determined based on a discounted cash flow analysis. For loans that exhibited some characteristics of performance and where it appears that the borrower may have adequate cash flows to service the loan, we used a discounted cash flow analysis. The discounted cash flow analysis was based on the contractual maturity of the loan and market indications of rates, prepayment speeds, defaults and credit risk. Loans with balloon or interest only payment structures, we extended the repayment period beyond the current contractual maturity date.

Collateral Value Approach: Fair value is determined based on the estimated values of the underlying collateral. For collateral dependent loans, management uses the estimated net sales proceeds to determine the fair value of the loans when deemed appropriate. The implied sales proceeds value provides a better indication of value than the income stream as these loans are not performing or exhibit strong signs indicative of non-performance.

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for collateral dependent loans measured at fair value on a non-recurring basis at December 31, 2023:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 3,009	Collateral Value/ Appraisal approach	a. Management adjustments based on net present values.	0.20 to 9.90%
Commercial	$ 3,937	Collateral Value/ Appraisal approach	a. Management adjustments based on net present values.	0.00% to 25.10%
		Collateral Value/ Appraisal approach	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	49.58%
Leasing	$ 46	Collateral Value/ Appraisal approach	a. Personal property collateral is discounted based on management's assessment of loss given default	8.00 to 17.00%
Consumer	$ 552	Liquidation Value	a. Adjustments can range up to 25% of liquidation costs plus 15% for related expenses.	2.40% to 32.60%
		Collateral Value/ Appraisal approach	b. Personal property collateral is discounted based on management's assessment of loss given default	1.05%

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for impaired financial instruments measured at fair value on a non-recurring basis at December 31, 2022:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range (Weighted Average)
Real Estate Commercial	$ 278	Management estimates	a. Management adjustments based on net present value of cash flows.	0.54 to 4.94%
Commercial	$ 962	Management estimates	a. Management adjustments based on net present value of cash flows.	0.79% to 17.13%
		Management estimates	b. Management adjustments for unsecured loans based on unguaranteed portion of SBA loans	49.58%
Leasing	$ 86	Management estimates	a. Personal property collateral is discounted based on management's assessment of loss given default	100.00%
Consumer	$ 2,635	Liquidation Value	a. Adjustments can range up to 25% of liquidation costs plus 15% for related expenses.	25.00% to 39.74%
		Management estimates	b. Personal property collateral is discounted based on management's assessment of loss given default	1.05%

(Continued)

(In thousands, except per share amounts)

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments: The estimated carrying amounts and fair values of the Bank's financial instruments are as follows:

	Carrying	Fair Value Measurements at Using:			
December 31, 2023	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 89,611	$ 89,611	$ -	$ -	$ 89,611
Available-for-sale securities	1,497,445	-	1,497,445	-	1,497,445
FHLB stock	15,000	N/A	N/A	N/A	N/A
Loans and leases, net	1,553,409	-	-	1,512,866	1,512,866
Accrued interest receivable	12,170	6,007	265	5,898	12,170
Financial liabilities:					
Deposits	$ 2,838,627	$ 2,467,488	$ 371,139	$ -	$ 2,838,627
Accrued interest payable	917	270	647	-	917

	Carrying	Fair Value Measurements at Using:			
December 31, 2022	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 48,373	$ 48,373	$ -	$ -	$ 48,373
Interest-bearing deposits In banks	1,000	1,000	-	-	1,000
Available-for-sale securities	1,575,648	-	1,575,648	-	1,575,648
FHLB stock	15,000	N/A	N/A	N/A	N/A
Loans and leases, net	1,466,368	-	-	1,448,571	1,448,571
Accrued interest receivable	11,580	6,263	265	5,052	11,580
Financial liabilities:					
Deposits	$ 3,066,281	$ 2,910,822	$ 155,459	$ -	$ 3,066,281
Accrued interest payable	427	356	71	-	427

Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2023 and 2022 consisted of the following:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 626,486	$ -	$ (64,105)	$ 562,381
Obligations of states and political subdivisions	259,592	191	(20,357)	239,426
Government sponsored entities residential mortgage-backed securities	747,731	4	(71,970)	675,765
U.S. Treasuries	13,563	115	(3)	13,675
Other securities	6,669	-	(471)	6,198
	$ 1,654,041	$ 310	$ (156,906)	$ 1,497,445

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 629,043	$ -	$ (86,570)	$ 542,473
Obligations of states and political subdivisions	273,952	14	(29,347)	244,619
Government sponsored entities residential mortgage-backed securities	842,836	2	(89,927)	752,911
U.S. Treasuries	29,770	-	(270)	29,500
Other securities	6,834	-	(689)	6,145
	$ 1,782,435	$ 16	$ (206,803)	$ 1,575,648

Net unrealized gains (losses) on available-for-sale investment securities totaling $(156,596) and $(206,787) were recorded, net of $46,296 and $61,134 in deferred tax assets (liabilities), as accumulated other comprehensive income within stockholders' equity at December 31, 2023 and 2022, respectively. Management determined no allowance for credit loss was required for the available-for-sale investment securities portfolio as of December 31, 2023. There were no sales of available-for-sale investments during the years ended December 31, 2023 and 2022. There were no transfers of available-for-sale investment securities for the years ended December 31, 2023 and 2022. There were no holdings of securities of any one issuer, other than the US Government and it’s agencies, which exceeds 10% of the stockholders’ equity as of December 31, 2023 and 2022.

(Continued)

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Available-for-sale investment securities with unrealized losses at December 31, 2023 and 2022 are summarized and classified according to the duration of the loss period as follows:

	2023		2022	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Less than twelve months:				
U.S. Government agencies	$ 30,358	$ (636)	$ 69,379	$ (3,511)
Obligations of states and political subdivisions	12,282	(103)	134,702	(9,872)
Government guaranteed mortgage backed securities	9,894	(143)	372,676	(27,416)
U.S. Treasury	13,675	(3)	29,500	(270)
Other securities	-	-	-	-
Greater than twelve months:				
U.S. Government agencies	$ 532,023	$ (63,469)	$ 473,091	$ (83,059)
Obligations of states and political subdivisions	227,144	(20,254)	106,617	(19,475)
Government guaranteed mortgage backed securities	665,871	(71,827)	380,029	(62,512)
U.S. Treasury	-	-	-	-
Other securities	6,198	(471)	6,145	(688)
	$ 1,497,445	$ (156,906)	$ 1,572,139	$ (206,803)

U.S. Treasury and U.S. Government Agencies: The Bank holds 236 securities issued by U.S. Treasury and U.S Government Agencies, of which 2 have been in a continuous loss position for less than 12 months and 231 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in U.S. Treasuries and Government agencies are caused by the fluctuation in interest rates and are not attributable to changes in credit quality. Management intends to hold these investments until at least a recovery of fair value or until maturity. Because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, management does not consider these investments to have credit-related impairment at December 31, 2023.

Obligations of States and Political Subdivisions: The Bank holds 401 securities issued by state and political subdivisions, of which 7 have been in a continuous loss position for less than 12 months and 382 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in obligations of states and political subdivisions are a result of the fluctuation in interest rates. The contractual cash flows of these investments are considered a general obligation of, or supported by specific revenues of, a state or local municipality and the Bank intends to hold these investments until at least a recovery of fair value or until maturity. Therefore, the Bank expects to collect all amounts due, and because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, management does not consider these investments to have credit-related impairment at December 31, 2023.

(Continued)

(In thousands, except per share amounts)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Government Guaranteed Mortgage Backed Securities: The Bank holds 285 Government Guaranteed Mortgage Backed Securities, of which 1 have been in a continuous loss position for less than 12 months and 272 have been in a continuous loss position for 12 months or longer. Management believes that the unrealized losses on the Bank's investment in government guaranteed mortgage backed securities is caused by the fluctuation in interest rates and is not attributable to changes in credit quality. Management intends to hold these investments until at least a recovery of fair value or until maturity. Because the Bank does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, management does not consider these investments to have credit-related impairment at December 31, 2023.

Other Securities: Management continually evaluates the portfolio for credit issues that it believes may have an impact on the ability to fully recover the amortized cost basis of the bond and would therefore be considered a permanent impairment. The Bank holds 3 corporate bonds, of which none have been in a continuous loss for less than 12 months and 3 which have been in a continuous loss position for 12 months or longer. Management believes the unrealized losses on the Bank’s investment in corporate bonds is caused by the fluctuation in interest rates and is not attributable to changes in credit quality. The Bank does not have the intent to sell these securities and it is likely it will not be required to sell the securities before their anticipated recovery, management does not consider the remaining investments to have credit-related impairment at December 31, 2023.

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to call or prepay obligations with or without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	$ 49,323	$ 48,581
After one year through five years	484,406	446,139
After five years through ten years	282,774	245,569
After ten years	89,808	81,390
	906,311	821,679
Investment securities not due at a single maturity date:		
Government sponsored entities mortgage-backed securities	747,730	675,766
	$ 1,654,041	$ 1,497,445

Investment securities with amortized costs of $209,181 and $210,892 and fair values of $194,054 and $190,353 as of December 31, 2023 and 2022, respectively, were pledged to secure public and trust deposits. Of that total, securities with amortized costs of $12,815 and $12,458 and fair values of $12,886 and $12,458 as of December 31, 2023 and 2022, respectively, were pledged specifically to secure bankruptcy trust deposits. Additional pledging of the portfolio is done for FRB and FHLB borrowing arrangements (see Note 8) and for other purposes required or permitted by law.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES

The Bank originates loans in the ordinary course of business. In addition to originating loans, the Bank may also purchase loans through pool purchases or participation purchases.

Loans and leases are reported net of deferred loan origination fees and costs of $1,540 in 2023 and $1,865 in 2022 and consist of the following at December 31:

	2023	2022
Real estate – commercial	$ 844,626	$ 747,386
Real estate – construction	113,445	110,853
Commercial	134,244	163,940
Lease financing	6,795	15,819
Consumer	495,567	471,910
Total	1,594,677	1,509,908
Less: Allowance for credit losses	(41,268)	(43,540)
	$ 1,553,409	$ 1,466,368

The components of the Bank's leases receivable at December 31 are as follows:

	2023	2022
Future lease payments receivable	7,056	16,624
Deferred broker costs	90	258
Unearned income	(351)	(1,063)
Net lease financing receivable	$ 6,795	$ 15,819

Future lease payments receivable are as follows:

Year Ending December 31,	
2024	$ 1,395
2025	3,149
2026	2,392
2027	120
	$ 7,056

The Bank's loan portfolio has been pledged to secure borrowing arrangements (see Note 8).

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

On January 1, 2023, the Bank adopted ASC 326 (current expected credit loss CECL methodology), The disclosures for 2023 are reported under the new methodology, whereas 2022 disclosures are reported under the Bank's former incurred loss methodology.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	December 31, 2023					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance, prior to adoption of ASC 326	$ 28,090	$ 2,492	$ 3,959	$ 632	$ 8,367	$ 43,540
Impact of adopting ASC 326	(5,327)	7,025	93	(245)	(1,546)	-
Amount reclassified to establish off balance sheet reserve	(4,911)	2,036	(1,143)	(236)	2,174	(2,080)
Credit loss expense	-	-	-	-	-	-
Loans charged-off	-	-	(238)	(163)	(174)	(575)
Recoveries	-	63	66	127	127	383
Total ending allowance balance	$ 17,852	$ 11,616	$ 2,733	$ 115	$ 8,952	$ 41,268

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2023 and 2022, respectfully:

	December 31, 2023					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ 2,335	$ -	$ 2,447	$ 4,782	$ 839,844	$ 844,626
Real estate – construction	399	-	-	399	113,046	113,445
Commercial	137	-	715	852	133,392	134,244
Lease financing	51	-	44	95	6,700	6,795
Consumer	1,123	-	993	2,116	493,451	495,567
Total	$ 4,045	$ -	$, 4,199	$ 8,244	$ 1,586,433	$1,594,677

The Bank has allocated $211 of specific allowance for credit losses on non-accrual loans as of December 31, 2023.

	December 31, 2022					
	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due	Current	Total Loans
Real estate – commercial	$ -	$ -	$ 918	$ 918	$ 746,468	$ 747,386
Real estate – construction	-	-	-	-	110,853	110,853
Commercial	18	-	1,673	1,691	162,249	163,940
Lease financing	-	-	151	151	15,668	15,819
Consumer	270	-	412	682	471,228	471,910
Total	$ 288	$ -	$ 3,154	$ 3,442	$1,506,466	$1,509,908

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following tables show information related to impaired loans at for the years ended December 31, 2022:

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Real estate – commercial	$ 1,673	$ 1,832	$ -	$ 1,046	$ -
Commercial	$ 758	$ 1,032	$ -	$ 775	$ 17
Lease financing	$ 23	$ 23	$ -	$ 25	$ 2
Consumer	$ 409	$ 725	$ -	$ 412	$ 7
With an allowance recorded:					
Real estate – commercial	$ 282	$ 282	$ 4	$ 373	$ 22
Commercial	$ 1,159	$ 1,169	$ 197	$ 1,238	$ 55
Lease financing	$ 151	$ 151	$ 65	$ 183	$ -
Consumer	$ 2,694	$ 2,694	$ 59	$ 2,725	$ 69
Total:					
Real estate – commercial	$ 1,955	$ 2,114	$ 4	$ 1,419	$ 22
Commercial	$ 1,917	$ 2,201	$ 197	$ 2,013	$ 72
Lease financing	$ 174	$ 174	$ 65	$ 208	$ 2
Consumer	$ 3,103	$ 3,419	$ 59	$ 3,137	$ 76

Included in the impaired loans above are 19 loans in the amount of $6,018 that were considered to be troubled debt restructurings at December 31, 2022.

For the years ended December 31, 2022, the average recorded investment in impaired loans was $6,777. The Bank had $325 of specific allowance for credit losses on impaired loans at December 31, 2022. Interest income on a cash basis was not significant. The impact of interest on non-accrual loans reflects a net loss of $258 for the year ended December 31, 2022,

Salaries and employee benefits totaling $1,327 and $2,108 have been deferred as loan and lease origination costs for the years ended December 31, 2023 and 2022, respectively.

Occasionally, the Bank modifies loans to borrowers in financial distress by providing modifications, including but not limited to principal forgiveness, term extension, or interest rate reduction. In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension is granted initially. If the borrower continues to experience financial difficulty, another concession, such as interest rate reduction, may be granted. In 2023, the Bank had no such modifications.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following tables show the activity of the allowance for loan and lease losses for the year ended December 31, 2022 by portfolio segment, and the allocation of the allowance for loan and lease losses by portfolio segment and by impairment methodology:

	December 31, 2022					
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Consumer	Total
Allowance for Credit Losses						
Beginning balance	$ 28,919	$ 2,091	$ 4,399	$ 1,207	$ 7,231	$ 43,847
Provision for loan and lease losses	(829)	367	(319)	(567)	1,348	-
Loans charged-off	-	-	(184)	(289)	(291)	(764)
Recoveries	-	34	63	281	79	457
Ending balance allocated to portfolio segments	$ 28,090	$ 2,492	$ 3,959	$ 632	$ 8,367	$ 43,540
Ending balance: individually evaluated for impairment	$ 4	$ -	$ 197	$ 65	$ 59	$ 325
Ending balance: collectively evaluated for impairment	$ 28,086	$ 2,492	$ 3,762	$ 567	$ 8,308	$ 43,215
Loans						
Ending balance	$ 747,386	$ 110,853	$ 163,940	$ 15,819	$ 471,910	$1,509,908
Ending balance: individually evaluated for impairment	$ 1,955	$ -	$ 1,917	$ 174	$ 3,103	$ 7,149
Ending balance: collectively evaluated for impairment	$ 745,431	$ 110,853	$ 162,023	$ 15,645	$ 468,807	$1,502,759

(Continued)

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2022:

	December 31, 2022 Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade				
	Real Estate – Commercial	Real Estate – Construction	Commercial	Lease Financing	Total
Grade:					
Pass	$ 733,472	$ 95,885	$ 161,023	$ 15,496	$ 1,005,876
Special Mention	10,813	5,903	421	90	17,227
Substandard	3,101	9,065	2,496	233	14,895
Total	$ 747,386	$ 110,853	$ 163,940	$ 15,819	$ 1,037,998

	December 31, 2022 Consumer Credit Exposure Credit Risk Profile Based on Payment Activity	
	Consumer	Total
Grade:		
Performing	$ 466,139	$ 466,139
Non-performing	5,771	5,771
Total	$ 471,910	$ 471,910

The Bank has allocated $325 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022. The Bank has no commitment to lend additional amounts to customers with outstanding loans classified as troubled debt restructurings, as of December 31, 2022. There were no modifications to loans for borrowers in financial distress during the year ended December 31, 2023.

During the periods ending December 31, 2022, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 5 years. Modifications involving an extension of the maturity date were for periods ranging from 6 months to 24 months.

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the period ended December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Real estate – commercial	1	$ 1,774	$ 1,673
Real estate – construction	-	-	-
Commercial	2	832	818
Lease financing	-	-	-
Consumer	2	11	11
Total	5	$ 2,617	$ 2,502

The troubled debt restructurings described above increased the allowance for loan losses by $43 and resulted in $0 in charge offs during the period ended December 31, 2022.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended December 31, 2022:

	Number of Loans	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real Estate – Commercial	1	$ 1,673
Commercial	1	275
Consumer	1	3
Total	3	$ 1,951

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification.

The Bank 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 Bank and the Bank's 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:

NOTE 4 – LOANS AND LEASES (Continued)

Pass – A pass loan is a strong 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 Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current sound worth and 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 Bank 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

(In thousands, except per share amounts)

NOTE 4 – LOANS AND LEASES (Continued)

The following table presents loans by origination year and risk grade as of the year ended December 31, 2023.

As of December 31, 2023	Term Loans Cost Basis by Origination Year					
Real Estate - Commercial	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	136,964	114,407	114,393	462,910	2,784	831,458
Special Mention	-	-	1,540	7,789	-	9,329
Substandard	-	-	-	3,839	-	3,839
Total	136,964	114,407	115,933	474,538	2,784	844,626
Real Estate - Commercial Current Period Gross write offs	-	-	-	-	-	-
Real Estate - Construction	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	18,398	39,336	30,763	9	20,848	109,354
Special Mention	3,578	-	-	-	-	3,578
Substandard	-	-	513	-	-	513
Total	21,976	39,336	31,276	9	20,848	113,445
Real Estate - Construction Current Period Gross write offs	-	-	-	-	-	-
Commercial	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	22,920	8,380	8,498	21,018	67,412	128,228
Special Mention	-	-	28	2,967	-	2,995
Substandard	-	50	-	2,971	-	3,021
Total	22,920	8,430	8,526	26,956	67,412	134,244
Commercial Current Period Gross write offs	-	-	-	154	20	174
Lease Financing	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	-	-	2,350	4,350	-	6,700
Special Mention	-	-	-	51	-	51
Substandard	-	-	44	-	-	44
Total	-	-	2,394	4,401	-	6,795
Lease Financing Current Period Gross write offs	-	-	55	108	-	163
Consumer	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Grade:						
Pass	70,674	108,143	87,018	136,254	88,581	490,670
Special Mention	-	-	-	2,303	-	2,303
Substandard	59	469	168	1,898	-	2,594
Total	70,733	108,612	87,186	140,455	88,581	495,567
Consumer Current Period Gross write offs	9	32	108	18	71	238
Total Loans	252,593	270,785	245,315	646,359	179,625	1,594,677

(In thousands, except per share amounts)

NOTE 5 – FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to own capital stock in an amount specified by regulation. At December 31, 2023 and 2022, the Bank owned 150,000 and 150,000 shares of $100 par value FHLB stock respectively. The stock is carried at cost and is redeemable at par with certain restrictions. The amount of stock required to be held is adjusted periodically based on a determination made by the FHLB.

NOTE 6 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31 consist of the following:

	2023	2022
Land	$ 3,423	$ 3,423
Buildings	32,117	31,872
Leasehold improvements	6,452	6,198
Equipment	18,260	21,038
Construction in progress	1,120	227
	61,372	62,758
Less: accumulated depreciation and amortization	(43,900)	(45,541)
	$ 17,472	$ 17,217

Depreciation and amortization expense were $2,278 and $2,243 for the years ended December 31,2023 and 2022, respectively.

NOTE 7 – INTEREST-BEARING DEPOSITS

Interest-bearing deposits at December 31 consisted of the following:

	2023	2022
Savings	$ 531,292	$ 706,092
Money market	485,322	392,223
NOW accounts	473,448	622,765
Time, $250,000 or more	129,484	51,170
Other time	241,655	104,289
	$ 1,861,201	$ 1,876,539

The Bank's other time deposits included reciprocal deposits which totaled $141,433 or 5.0% and $2,701 or 0.1% of total deposits, respectively, at December 31, 2023 and 2022. Reciprocal deposits were under the Certificate of Deposit Account Registry Service (CDARS) program and IntraFi Cash Services, which allows the Bank's deposit customers to have the entire balance of their deposit account insured by the FDIC. There were no wholesale brokered deposits at December 31, 2023 and 2022.

(In thousands, except per share amounts)

NOTE 7 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits at December 31, 2023 are as follows:

Year Ending December 31,	
2024	346,623
2025	20,257
2026	3,461
2027	623
2028	175
	$ 371,139

NOTE 8 – BORROWINGS

Federal Home Loan Bank Advances: The Bank may borrow from the Federal Home Loan Bank, on either a short-term or long-term basis, up to 30% of its assets provided that adequate collateral has been pledged. As of December 31, 2023, the Bank has pledged investment securities with a carrying value of $309,045 and loans with a carrying value of $1,098,723 to secure this borrowing arrangement. There were $0 and $20,000 outstanding advances from the Federal Home Loan Bank of San Francisco at December 31, 2023 and 2022 respectively. The December 31, 2022 $20,000 outstanding advance had a daily maturity with a variable rate of 4.59%

Federal Reserve: The Bank may borrow from the Federal Reserve, Bank Term Funding Program loans up to one year in length, pledging qualifying assets as collateral. There were $225,000 and $0 outstanding loans from the Federal Reserve Bank of San Francisco at December 31, 2023 and 2022 respectively. The December 31, 2023 $225,000 loan had a maturity date of December 20, 2024 with a rate of 4.850%. The Bank also has a secured line of credit as of December 31, 2023 of $27,800.

Lines of Credit: The Bank has an unsecured line of credit of $50,000 and $50,000 with its correspondent bank, Pacific Coast Banker's Bank as of December 31, 2023 and 2022; and a $10,000 and $10,000 unsecured line of credit with its correspondent bank, Wells Fargo as of December 31, 2023 and 2022 respectively. There are no outstanding balances at December 31, 2023 and 2022.

As of December 31, 2023, the Bank had total available borrowing capacity of $1,598,634.

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES

The expense (benefit) from income taxes for the years ended December 31, 2023 and 2022 consisted of the following:

	Federal	State	Total
2023			
Current	$ 9,659	$ 5,693	$ 15,352
Deferred	(5,071)	(2,762)	(7,833)
Provision for income taxes	$ 4,588	$ 2,931	$ 7,519
2022			
Current	$ 7,952	$ 3,774	$ 11,726
Deferred	484	396	880
Provision for income taxes	$ 8,436	$ 4,170	$ 12,606

Deferred tax assets (liabilities) are included in accrued interest receivable and other assets and are comprised of the following at December 31, 2023 and 2022:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 12,779	$ 12,827
Deferred compensation	4,406	4,932
Postretirement benefits	1,147	1,477
Restructuring reserve	-	-
Nonaccrual interest	221	182
State taxes	1,073	979
Deferred gain	202	271
Bank premises and equipment	1,134	848
Amortization of trust assets	114	117
Lease liability	2,265	2,427
Unrealized losses on available for sale investment securities	46,296	61,134
Other	274	416
Total deferred tax assets	69,911	85,610
Deferred tax liabilities:		
Deferred loan costs	(469)	(669)
Prepaid expenses	(21)	(158)
Pension expenses	(1,424)	(6,581)
FHLB stock dividends	(272)	(272)
Right of Use asset	(2,265)	(2,427)
Other	(85)	(213)
Total deferred tax liabilities	(4,536)	(10,320)
Net deferred tax assets	$ 65,375	$ 75,290

(Continued)

(In thousands, except per share amounts)

NOTE 9 – INCOME TAXES (Continued)

The effective tax rate, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

	Year Ended December 31,	
	2023	2022
Federal income tax expense, at statutory rate	21.0%	21.0%
State franchise tax, net of Federal tax effect	8.4	6.6
Tax-exempt interest on obligations of states and political subdivisions	(1.8)	(1.0)
Cash surrender value of life insurance	(1.7)	(1.2)
Tax credits	(0.9)	(0.1)
Other	(0.4)	
Nondeductible Excise Tax	2.6	(0.1)
Effective tax rate	27.2%	25.2%

The Bank files income tax returns in the United States jurisdiction and the State of California jurisdiction. The Bank is no longer subject to Federal income tax examinations by tax authorities for years before 2020. The Bank is no longer subject to California income tax examinations by tax authorities for years before 2019.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2023 and 2022, the Bank recognized no interest or penalties.

(In thousands, except per share amounts)

NOTE 10 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers during 2023:

Balance, January 1, 2023	$ 11,144
Disbursements	13,034
Amounts repaid	(14,515)
Change in relationship	-
Balance, December 31, 2023	$ 9,663
Undisbursed commitments to related parties, December 31, 2023	$ 7,664

(Continued)

(In thousands, except per share amounts)

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following is changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2023 and 2022:

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2023				
Beginning Balance	$ (145,652)	$ (7,908)	$ (101)	$ (153,661)
Amounts reclassified from accumulated other comprehensive income	-	(64)	-	(64)
Net current period other comprehensive income (loss)	35,350	6,415	220	41,985
Ending balance	$ (110,302)	$ (1,557)	$ 119	$ (111,740)

	Unrealized Gains and Losses on Available-for-Sale Securities	Post Retirement Benefit Items	Deferred Compensation	Total
December 31, 2022				
Beginning Balance	$ (4,566)	$ (3,251)	$ 413	$ (7,404)
Amounts reclassified from accumulated other comprehensive income	-	(63)	-	(63)
Net current period other comprehensive income (loss)	(141,086)	(4,594)	(514)	(146,194)
Ending balance	$ (145,652)	$ (7,908)	$ (101)	$ (153,661)

(In thousands, except per share amounts)

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2023:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	$ (50)	Other expense
	(14)	Provision for income taxes
	$ (64)	Net of tax

The following is significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ending December 31, 2022:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items including prior service costs and actuarial gains (losses)	$ (50)	Other expense
	(13)	Provision for income taxes
	$ (63)	Net of tax

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN

Effective as of June 30, 2023, the Bank completed the planned termination of its defined benefit pension plan (the Plan). The final cash moved from the pension plan on July 3 and July 5, 2023. In connection with the termination of the Plan, the Bank settled all of its obligations to retirees and certain active employees who were once a part of the now terminated Plan. All former Plan members were made completely whole through either lump-sum distributions or the provision of individual annuities. Subsequent to the distribution, the plan had $22,484 in remaining cash.

The Bank booked a loss as a result of the termination as follows:

Prepaid pension asset	$30,882
Cash remaining in plan	22,484
Book loss on termination	$ 8,398

For tax purposes, the Bank set aside 25% or $5,621 of the cash proceeds in a qualified replacement plan to take advantage of reduced excise tax levels, this amount is included in Other Assets. The cash set aside in the qualified replacement plan will be used to satisfy up to seven years of profit-sharing plan contributions. The remaining cash of $16,863 was reverted to the Bank and considered excess assets; as such, it was subject to the 20% excise tax.

In addition to the book loss as referenced above, the Bank reversed the impact of accumulated other comprehensive income and deferred tax components as noted on December 31, 2022:

Accumulated other comprehensive income	$ 5,834
Deferred tax assets	2,449
Deferred tax liabilities	(8,283)

The following presents the reconciliations of plan benefit obligations and plan assets for the year ended December 31, 2022. The Bank used a December 31, 2022 measurement date for the Plan.

	2022
Change in benefit obligation:	
Benefit obligation at beginning of year	$ 49,475
Service cost	-
Interest cost	1,446
Benefits paid	(2,693)
Actuarial (gain) loss	(8,021)
Benefit obligation at end of year	$ 40,207
Change in plan assets:	
Fair value of plan assets at beginning of year	$ 75,727
Employer contribution	-
Benefits and expenses paid	(2,693)
Actual return on plan assets	(10,567)
Fair value of plan assets at end of year	$ 62,467
Funded status at end of year	$ 22,260

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

Amounts recognized in accumulated other comprehensive income at December 31, 2022 consist of:

	2022
Net actuarial loss	$ 8,284
Prior service cost (credit)	-
	$ 8,284

The accumulated benefit obligation was $40,207 at December 31, 2022.

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2022.

2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and equivalents	$ 24,877	$ 24,877	$ -	$ -
Equity securities:				
U.S. large-cap (a)	4,620	4,620	-	-
U.S. small-cap (b)	720	720	-	-
International large-cap (c)	1,477	1,477	-	-
Fixed income securities:				
U.S. corporate bond funds (e)	6,900	6,900	-	-
U.S. Total Bond Market fund (f)	23,873	23,873	-	-
Total	$ 62,467	$ 62,467	$ -	$ -

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500, as well as actively managed funds that track the Russell 100 value index.
(b) This category represents low-cost actively managed and broadly diversified U.S. small cap equity funds.
(c) This category represents low cost index enhanced and broadly diversified Non U.S. large cap international funds.
(d) This category represents individual government agency fixed income debentures of a short to intermediate term to maturity.
(e) This category represents low-cost actively managed U.S. investment grade bond funds.
(f) This category represents a low-cost bond index fund passively managed to track the broad U.S. fixed income markets.

The fair values for equity securities and mutual funds 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). Certain debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, 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 (Level 2 inputs). 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). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The allocation by asset category of the pension plan assets at December 31, 2022 is as follows:

	2022
Asset category:	
Equity	11%
Fixed income	49%
Other	40%
Total	100%

The primary investment objective for the Plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality and diversification guidelines and restrictions approved by the retirement committee. The asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies with the goal to enhance the expected return of the retirement portfolio while maintaining acceptable levels of risk.

The components of 2022 net periodic benefit cost are as follows:

	2022
Service cost	$ -
Interest cost	1,446
Expected return on plan assets	(4,283)
Amortization of unrecognized prior service cost	-
Recognized prior service cost due to curtailment	-
Amortization of unrecognized actuarial loss	-
Total net periodic cost	$ (2,837)
Net (gain) loss, including curtailment	$ 6,829
Prior service cost	-
Amortization of prior service cost	-
Amortization of net gain (loss)	-
Total recognized in other comprehensive income	6,829
Total recognized in net periodic cost (income) and other comprehensive income	$ 3,992

(Continued)

(In thousands, except per share amounts)

NOTE 12 – RETIREMENT PLAN (Continued)

The weighted average assumptions used to determine benefit obligations at December 31, 2022:

	2022
Discount rate	5.23%
Rate of compensation increase	N/A

The weighted average assumptions used to determine net periodic benefit cost at December 31, 2022:

	2022
Discount rate	3.00%
Rate of compensation increase	N/A
Expected return of plan assets	5.75%

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN

The following presents the postretirement healthcare plan's combined funded status:

	2023	2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,533	$ 6,038
Service cost	20	19
Plan Amendment	-	-
Interest cost	5	2
Benefits paid	(540)	(486)
Plan participant contribution	-	-
Actuarial (gain) loss	(59)	(40)
Benefit obligation at end of year	$ 4,959	$ 5,533
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 5,540	$ 5,891
Other payments	384	(1)
Plan participant contribution	-	-
Benefits paid	(540)	(486)
Employer contribution	9	53
Actual return on plan assets	273	83
Fair value of plan assets at end of year	$ 5,666	$ 5,540
Plan assets less benefit obligation at end of year	$ 707	$ 7

Amounts recognized in accumulated other comprehensive income at December 31 consist of:

	2023	2022
Net actuarial loss	$ 1,476	$ 2,157
Prior service cost	734	785
	$ 2,210	$ 2,942

The accumulated benefit obligation was $4,959 and $5,533 at December 31, 2023 and 2022. The Bank does not expect to contribute to the Plan in 2024.

	2023	2022
Components of net periodic benefit cost:		
Service cost	$ 20	$ 20
Interest cost	5	2
Expected return on plan assets	(132)	(56)
Loss (gain)	99	101
Amortization of unrecognized prior service cost	50	50
Total net periodic benefit cost	$ 42	$ 117

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

	2023	2022
Net loss (gain)	$ (583)	$ (67)
Amortization of net (gain) loss	(99)	(101)
Prior Service costs	-	-
Amortization of prior service cost	(50)	(50)
Total recognized in other comprehensive income	(732)	(218)
Total recognized in net periodic (income) cost and other comprehensive income	$ (690)	$ (101)

The following table represents the assumed health care trend rates at December 31:

	2023	2022
Health care trend rate assumed for next year	5.50%	5.50%
Rate to which the cost trend rate is assumed to decline	5.50%	5.50%
Year that the rate reaches the ultimate trend rate	2010	2010

The following presents the Plan investments, including their fair value and method of fair value determination, as of December 31, 2023 and 2022.

2023	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 5,666	$ 5,666	$ -	$ -
Total	$ 5,666	$ 5,666	$ -	$ -

(Continued)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

2022	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 5,540	$ 5,540	$ -	$ -
Total	$ 5,540	$ 5,540	$ -	$ -

The fair values for equity securities and mutual funds 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). Certain debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other debt securities are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, 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 (Level 2 inputs). 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). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

As of November 1, 2022, the Plan was amended and is no longer a fully-insured medical plan nor a self-funded dental and vision plan for its retirees. After the amendment, the plan consists of individual retiree health reimbursement accounts to help eligible retirees pay for medical, dental, vision and prescription drug plans.

For the plan amendment, all investments were converted to cash. The Plan will only hold cash going forward.

Stated are the maximum and minimum asset allocation levels at market for each asset category as well as the weighted average expected return for each asset class.

	Policy	Weighted Average Expected Return
Cash and equivalents	100%	0%

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

The allocation by asset category of the postretirement healthcare plan assets at December 31 is as follows:

	2023	2022
Asset category:		
Other	100%	100%
Total	100%	100%

The Bank uses a December 31 measurement date for the Plan. For measurement purposes, the healthcare trend rate of 5.5% was used in 2023 and 2022. They will remain at that level thereafter except where the Bank's contribution limit applies. The healthcare cost trend rate assumptions have a significant effect on the amounts reported, but their impact is lessened because the Bank limits its annual increase at twice the 1991 average premium rate. Increasing or decreasing the assumed healthcare cost trend rates by 1.0% in each year would not change the accumulated postretirement benefit obligation nor would the aggregate of the service and interest components of net periodic postretirement benefit cost change.

The weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	2023	2022
Discount rate	5.10%	5.40%
Rate of compensation increase	N/A	N/A

The weighted average assumptions used to determine net periodic benefit cost at December 31 are as follows:

	2023	2022
Discount rate	5.40%	3.00%
Expected return of plan assets	2.50%	1.00%
Rate of compensation increase	N/A	N/A

The expected return on retirement plan assets is developed using inflation expectations and risk factors to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

The plan assets are invested in a 501(c)(9) Voluntary Employees' Beneficiary Association trust which is subject to unrelated business income tax. The plan assets were funded by the Bank initially on December 31, 1991 and periodic contributions have been made since then. As of December 31, 2023 and 2022, there were only liquid investments.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. The Plan was designed to provide only for healthcare premiums and, consequently,

(Continued)

(In thousands, except per share amounts)

NOTE 13 – POSTRETIREMENT HEALTHCARE PLAN (Continued)

the measures of the postretirement benefit obligations and net periodic postretirement benefit cost do not reflect effects of the Act.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending December 31,	Pension Benefits
2024	$ 474
2025	$ 466
2026	$ 459
2027	$ 450
2028	$ 437
2029 through 2033	$ 1,929

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance-Sheet Risk: The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments represent commitments to originate fixed and variable rate loans and lines of credit and involve, to varying degrees, elements of interest rate risk and credit risk in excess of the amount recognized in the Bank's consolidated balance sheet. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments to originate loans and lines of credit as it does for on-balance sheet instruments.

The following financial instruments represent off-balance-sheet credit risk at December 31:

	2023	2022
Commitments to extend credit	$ 389,224	$ 447,195
Standby letters of credit	12,335	12,436
Total loan commitments	$ 401,559	$ 459,631

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

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The fair value of the liability related to commitments to extend

(Continued)

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

credit and standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2023 and 2022. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

Contingencies: The Bank is involved in legal proceedings arising in the normal course of business. In the opinion of management, the outcomes of such proceedings will not have a material adverse effect on the Bank's financial position or results of operations.

Uninsured Deposits: The Bank maintains funds on deposit with the Federal Home Loan Bank (FHLB) and other federally insured financial institutions under correspondent banking agreements. Uninsured deposits with the FHLB and correspondent banks totaled $10,905 and $8,822 at December 31, 2023 and 2022, respectively.

Postretirement Benefits: The Bank has salary continuation agreements in place to provide nonqualified defined benefit retirement income for certain executive officers of the Bank. In connection with establishing these agreements, the Bank purchased split-dollar single premium life insurance policies on each participant The agreements provide that each executive will receive annual benefits over their lifetime commencing with the month following their normal retirement date.

The Bank accrues for these future benefits from the effective date of the agreements until the executives' expected final payment dates in a systematic and rational manner. As of December 31, 2023, and 2022, the Bank had accrued $11,362 and $12,267, respectively, for benefits payable. This payable approximates the then present value of the benefits expected to be provided at retirement. The expense recognized under these agreements totaled $567 and $1,029 for the years ended December 31, 2023 and 2022, respectively. Amounts recognized in accumulated other comprehensive income as of December 31, 2023 and 2022, were not considered material.

The Bank has also established a deferred compensation plan for certain members of management for the purpose of providing the opportunity to defer compensation. At December 31, 2023 and 2022, the liability for accrued deferred compensation, including interest earned, totaled $4,123 and $4,052, respectively.

The Bank has also executed split-dollar life insurance agreements with certain employees in connection with the salary continuation agreements and deferred compensation plan whereby the Bank has effectively agreed to maintain a life insurance policy during the employees' postretirement period. The Bank had accrued a liability at December 31, 2023 and 2022 in the amount of $2,991 and $2,925, respectively, representing the actuarial present value of the costs to maintain life insurance during the employees' postretirement period.

The cash surrender value of life insurance purchased in connection with these agreements totaled $68,887 and $66,597 as of December 31, 2023 and 2022, respectively.

(In thousands, except per share amounts)

NOTE 15 – REGULATORY MATTERS

Regulatory Capital: Banks are subject to regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and prompt corrective action regulation 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. On January 1, 2015, the final rules of the Federal Reserve Board went into effect implementing in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision. Under the BASEL III rules, the minimum capital ratios are 4% for Tier 1 Leverage Capital Ratio, 4.5% for the Common Equity Tier 1 Capital Ratio, 6% for the Tier 1 Risk-Based Capital Ratio and 8% for the Total Risk-Based Capital Ratio. The net unrealized gain or loss on available for sale securities and defined benefit plans are not included in computing regulatory capital. Management believes as of December 31, 2023, the Bank met all capital adequacy requirements to which it was 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, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt correction action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following table represents the Bank's regulatory capital position as of December 31, 2023 and 2022 in relationship to the regulatory requirements to meet the definitions of adequately capitalized and well capitalized. There is an additional element of capital required referred to as the capital conservation buffer that is not included in this table. The capital conservation buffer adds another level of capital of 2.50% over the adequately capitalized ratios and is required to eliminate any regulatory restrictions from the Bank's ability to issued dividends, complete stock buybacks or pay management discretionary bonuses.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Minimum Amount	Minimum Ratio	Minimum Amount	Minimum Ratio
December 31, 2023						
Total capital (to risk-weighted assets)	$ 393,588	18.84%	$ 167,095	8.0%	$ 208,869	10.0%
Tier 1 capital (to risk-weighted assets)	$ 367,267	17.58%	$ 125,321	6.0%	$ 167,095	8.0%
Common Tier 1 (CET I)	$ 367,267	17.58%	$ 93,991	4.5%	$ 135,765	6.5%
Tier 1 capital (to average assets)	$ 367,267	10.52%	$ 139,613	4.0%	$ 174,516	5.0%
December 31, 2022						
Total capital (to risk-weighted assets)	$ 380,252	19.54%	$ 155,707	8.0%	$ 194,633	10.0%
Tier 1 capital (to risk-weighted assets)	$ 355,686	18.27%	$ 116,780	6.0%	$ 155,707	8.0%
Common Tier 1 (CET I)	$ 355,686	18.27%	$ 87,585	4.5%	$ 126,512	6.5%
Tier 1 capital (to average assets)	$ 355,686	10.15%	$ 140,127	4.0%	$ 175,159	5.0%

Dividend Restrictions: 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. In addition, subject to prior regulatory approval, any state banking association may request an exception to this restriction.

(Continued)

(In thousands, except per share amounts)

NOTE 16 – REVENUE FROM CONTRACTS WITH CUSTOMERS

A subset of our noninterest income relates to certain fee-based revenue within the scope of ASC 606 – *Revenue from Contracts with Customers*. The objective of the standard is to clarify the principles for recognizing revenue from contracts with customers across all industries and to develop a common revenue standard under GAAP. All of the Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Bank's sources of Non-Interest Income for the twelve months ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	2023	2022
Non-interest Income		
Service charges and fees	$ 3,265	$ 3,279
Trust income	9,787	10,024
Merchant discount and interchange fees	5,311	5,200
Income from bank owned life insurance[a]	2,255	2,121
Other income[a]	3,042	3,744
Total non-interest income	$ 23,660	$ 24,368

[a]Not within the scope of ASC 606.

A description of the Bank's revenue streams accounted for under ASC 606 follows.

Service charges and fees: Retail Banking provides demand deposit, money market and savings account products for consumer and small business customers. Services include online and branch banking, overdraft, ATM use fees, wire transfer services, imaging services and cash alternative services such as cashier's checks. We recognize fee income at the time these services are performed for the customer.

Trust Services: Services provided to Trust customers are a series of distinct services that have the same pattern of transfer each month. Fees for trust accounts are billed and drafted from trust accounts on a predominately monthly basis. The Bank records these fees on the income statement on a monthly basis. Fees are assessed based on the total investable assets of the customer's trust account. A signed contract between the Bank and the customer is maintained for all customer trust accounts with payment terms identified. It is probable that the fees will be collectible as funds being managed are accessible by the asset manager. Past history of trust fee income recorded by the Bank indicates it is highly unlikely that a significant reversal could occur.

Merchant Discount and Interchange Fee: Retail Banking earns fee revenue for debit and credit card processing services. We provide these services to merchant businesses including point-of-sale payment acceptance capabilities and customized payment processing built around the merchant's specific requirements. We earn fee revenue as the merchant's customers make purchases.

Gains/Losses on Sales of OREO: The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. Upon the transfer of control of the property to the buyer, the OREO asset is derecognized and the gain or loss on sale is recorded.

(Continued)

(In thousands, except per share amounts)

NOTE 17 – LEASES

The Bank leases certain branch premises under operating lease agreements. The leases expire on various dates through 2030 and have renewal options for up to five years. The Bank includes lease extension options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. 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. At December 31, 2023, minimum commitments under these non-cancellable leases with initial or remaining terms of one year or more are as follows:

Year Ending December 31,	
2023	$ 1,821
2024	1,897
2025	1,585
2026	1,418
2027	1,083
Thereafter	1,413
Total undiscounted lease payments	9,217
Less: imputed interest	(1,556)
Net lease liabilities	$ 7,661

Leases are classified as operating at the lease commencement date. Lease expenses for operating leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Rent expense under operating leases was $1,822 and $1,681 for the years ended December 31, 2023 and 2022, respectively.

As the Bank carries no debt and has not participated in the secondary markets to raise new debt, the Bank has elected to use US Treasury yields as a proxy for the incremental implicit rate of its leases. The Bank believes that US Treasury yields are not materially different from its ability to access the market through a fully secured borrowing rate.

Right-of-use assets and lease liabilities by lease type and the associated balance sheet classifications for the years ending December 31, 2023 and 2022 are as follows:

	Balance Sheet Classification	2023	2022
Right-of-use assets:			
Operating lease	Accrued interest receivable and other assets	$ 7,661	$ 8,210
Lease liabilities:			
Operating lease	Accrued interest payable and other liabilities	$ 7,661	$ 8,210