1st Capital Bancorp

2022 Annual Report

1ST CAPITAL BANCORP

To Our Shareholders and Clients,

Before all else, a heartfelt thank you goes to our passionate and dedicated employees for their commitment and service to our clients and communities. Their efforts greatly attributed to our record-setting earnings of $8.6 million in 2022.

Financial Highlights

- Earnings per share of $1.55, reflecting $0.21 per share growth or 16% from the prior year
- Total Average Deposits increased over $79 million or 9% from the prior year
- Total Average Core Loans increased over $23 million or 5% from the prior year
- Tier 1 Leverage Ratio increased 24%, reflecting a Tier 1 leverage ratio of 10.04% at year-end
- Asset Quality remains strong with non-performing asset at 0.06% of total assets at year-end

Rising Rates and Economic Uncertainty

While a rise in interest rates was expected in 2022 as inflation proved more than transitory, the pace and frequency of the interest rate increases was aggressive to say the least. Over the last fifteen months, the Federal Reserve has increased the Federal Funds five percentage points with messaging of continuing tightening ahead. This rapid rate acceleration in combination of with the recent failures of large regional banks has triggered unique challenges for the entire industry as we work to manage our balance sheets and net interest margins.

Despite these challenges and the economic uncertainty ahead, We are highly confident in the financial strength of 1st Capital Bank and the team's ability to remain focused on serving the growing needs of our clients. We are committed to building long-term value to our shareholders and are positioned to do so with a strong and stable core deposit base, ample and diverse sources of liquidity, and a solid capital position.

Support and Service in our Communities

- Non-Profits Supported: 88
- Fiscal Support to Non-Profits: $239,495
- Employee Volunteer Hours: 2,661 hours supporting 71 organizations

New Board Member

In August of 2022, we welcomed Anne Leach to the Board of Directors of 1st Capital Bank and 1st Capital Bancorp, and we look forward to her continuing contributions.

Looking Ahead

With the expectations that the current economic landscape will persist, we are currently developing a number of initiatives to restructure and further strengthen our balance sheet. In addition, an organizational review is currently underway.

These initiatives are expected to improve our efficiencies and operating leverage, and position the Bank for sustainable operating performance.

We are excited and focused on continuing to execute on our Mission of **"Providing Sustainable Value to our Customers, Communities, Team Members, and Shareholders"** along the Central Coast.

Kurt J. Gollnick
Chairman of the Board

Samuel D. Jimenez
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
1st Capital Bancorp
Salinas, California

Opinion

We have audited the consolidated financial statements of 1st Capital Bancorp, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, 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 1st Capital Bancorp as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 1st Capital Bancorp and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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 1st Capital Bancorp's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

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, but not for the purpose of expressing an opinion on the effectiveness of 1st Capital Bancorp's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 1st Capital Bancorp's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Sacramento, California
March 30, 2023

1ST CAPITAL BANCORP

CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(Dollars in Thousands)

	December 31, 2022	December 31, 2021
ASSETS:		
Cash and due from banks	$ 6,770	$ 6,768
Due from Federal Reserve Bank	31,245	77,311
Total cash and cash equivalents	38,015	84,079
Debt securities available for sale, at fair value	233,530	333,869
Debt securities held to maturity (fair value of $68,862)	71,039	--
Loans receivable held for investment (net of allowance for loan losses of $7,347 at December 31, 2022 and $8,578 at December 31, 2021)	557,091	555,664
Cash surrender value of bank-owned life insurance	8,651	8,487
Federal Home Loan Bank stock, at cost	4,058	3,948
Deferred tax assets, net	16,423	3,854
Premises and equipment, net	1,620	2,262
Accrued interest and dividends receivable	3,363	3,431
Other assets	9,612	3,766
TOTAL ASSETS	$ 943,402	$ 999,360
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Noninterest-bearing deposits	$ 415,256	$ 463,991
Interest-bearing deposits	447,441	435,169
Total deposits	862,697	899,160
Subordinated debentures	14,738	14,663
Accrued interest payable	29	22
Other liabilities	9,428	5,517
Total liabilities	886,892	919,362
Commitments and contingencies (Note 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2022 and 2021	--	--
Common stock, no par value, 20,000,000 shares authorized; 5,499,937 shares issued and outstanding at December 31, 2022; 5,609,141 shares issued and outstanding at December 31, 2021	62,198	63,888
Retained earnings	25,104	16,524
Accumulated other comprehensive loss, net of taxes	(30,792)	(414)
Total stockholders' equity	56,510	79,998
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 943,402	$ 999,360

See Notes to Consolidated Financial Statements

1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands, except for per share amounts)

	2022	2021	2020
INTEREST AND DIVIDEND INCOME:			
Loans receivable	$ 28,128	$ 27,555	$ 24,581
Taxable securities	5,990	1,417	860
Tax-exempt securities	1,713	2,035	330
Federal Home Loan Bank stock	261	230	176
Interest-bearing deposits in other financial institutions	1	--	--
Interest-bearing balances due from Federal Reserve Bank	444	85	92
Total interest and dividend income	36,537	31,322	26,039
INTEREST EXPENSE:			
Deposits	1,751	1,199	1,001
Borrowings	699	364	--
Other	195	--	--
Total interest expense	2,645	1,563	1,001
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	33,892	29,759	25,038
PROVISION FOR LOAN LOSSES	523	--	2,125
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,369	29,759	22,913
NON-INTEREST INCOME:			
Service charges and fees	468	283	304
Bank-owned life insurance dividend income	164	175	191
Gain on sale of loans	76	155	75
Loss on sale of investment securities	(1,150)	(77)	--
Other income	916	377	458
Total non-interest income	474	913	1,028
NON-INTEREST EXPENSE:			
Compensation and employee benefits	13,489	12,408	10,858
Occupancy	1,780	1,643	1,515
Item and data processing	897	897	750
Professional services	696	736	802
Equipment and furniture	552	466	638
Marketing and business development	499	449	253
Other non-interest expense	4,283	3,536	2,850
Total non-interest expense	22,196	20,135	17,666

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1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands, except for per share amounts)

	2022	2021	2020
INCOME BEFORE PROVISION FOR INCOME TAXES	11,647	10,537	6,275
PROVISION FOR INCOME TAXES	3,067	2,904	1,770
NET INCOME	$ 8,580	$ 7,633	$ 4,505
BASIC EARNINGS PER SHARE	$ 1.56	$ 1.37	$ 0.81
Weighted average shares used in basic earnings per share calculation	5,487,561	5,585,886	5,536,805
DILUTED EARNINGS PER SHARE	$ 1.55	$ 1.34	$ 0.81
Weighted average shares used in diluted earnings per share calculation	5,546,547	5,680,237	5,582,987

See Notes to Consolidated Financial Statements

1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands)

	2022	2021	2020
NET INCOME	$ 8,580	$ 7,633	$ 4,505
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses)	(37,240)	(3,038)	1,602
Unrealized holding losses transferred from available for sale to held to maturity	(8,916)	--	--
Less: Reclassification for net loss included in net income	1,150	77	--
Amortization of unrealized loss on securities held to maturity transferred from available for sale	666	--	--
Interest on cash flow hedge	195	--	--
Unrealized gains on cash flow hedge	973	--	--
Other comprehensive (loss) income, before tax	(43,172)	(2,961)	1,602
Tax effect	(12,794)	(879)	453
Total other comprehensive (loss) income, net of tax	(30,378)	(2,082)	1,149
COMPREHENSIVE (LOSS) INCOME	$ (21,798)	$ 5,551	$ 5,654

See Notes to Consolidated Financial Statements

1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands)

	Common Stock		Retained	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	Amount	Earnings	(Loss)	Equity
Balance at January 1, 2020	5,520,179	$ 63,110	$ 4,386	$ 519	$ 68,015
Vested restricted stock awards issued	49,842	--			--
Share based compensation expense		664			664
Net income			4,505		4,505
Other comprehensive income				1,149	1,149
Balance at December 31, 2020	5,570,021	63,774	8,891	1,668	74,333
Vested restricted stock awards issued	57,209				
Repurchase and retirement of common stock	(18,089)	(253)			(253)
Share based compensation expense		367			367
Net income			7,633		7,633
Other comprehensive loss				(2,082)	(2,082)
Balance at December 31, 2021	5,609,141	$ 63,888	$ 16,524	$ (414)	$ 79,998

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1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands)

	Common Stock		Retained	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	**Amount**	**Earnings**	**(Loss)**	**Equity**
Balance at December 31, 2021	5,609,141	$ 63,888	$ 16,524	$ (414)	$ 79,998
Vested restricted stock awards issued	54,296				
Repurchase and retirement of common stock	(163,500)	(2,515)			(2,515)
Share based compensation expense		825			825
Net income			8,580		8,580
Other comprehensive loss				(30,378)	(30,378)
Balance at December 31, 2022	5,499,937	$62,198	$25,104	$(30,792)	$56,510

1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands)

	2022	2021	2020
OPERATING ACTIVITIES:			
Net income	$ 8,580	$ 7,633	$ 4,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	642	702	749
Amortization of security premiums, net of accretion of discounts	1,860	1,543	287
(Increase) decrease in deferred loan fees, costs, premiums, and discounts, net	(1,139)	(3,173)	1,651
Amortization of debt issuance costs	75	--	--
Provision for loan losses	523	--	2,125
Loss on sale of investment securities	1,150	77	--
Gain on sale of loans	(76)	(155)	(75)
Origination of loans held for sale	(708)	(9,707)	(1,703)
Proceeds from sale of loans held for sale	793	9,892	1,827
(Increase) decrease in loan servicing rights	19	2	(16)
(Increase) decrease in discount on retained interests in loans	779	986	(7)
Compensation expense related to stock compensation plans	825	367	664
(Increase) decrease in accrued interest and dividends receivable	69	(1,219)	(514)
Provision for deferred income taxes	249	838	(241)
Increase in cash surrender value of bank-owned life insurance	(214)	(175)	(191)
(Increase) decrease in other assets	(5,816)	(1,366)	730
Increase (decrease) in accrued interest payable	7	(8)	(29)
Increase (decrease) in other liabilities	3,910	712	(354)
Net cash provided by operating activities	11,528	6,949	9,408
INVESTING ACTIVITIES:			
Net decrease (increase) in loans receivable held for investment	(1,600)	42,831	(95,861)
Purchases of securities	(68,064)	(305,595)	(96,991)
Principal repayments and maturities of securities	21,412	50,903	58,187
Proceeds from sales of securities	29,748	22,452	--
Purchases of premises and equipment	--	(45)	(1,566)
Purchases of Federal Home Loan Bank stock	(110)	(414)	(33)
Net cash used in investing activities	(18,614)	(189,868)	(136,264)

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1ST CAPITAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, and 2020
(Dollars in Thousands)

	2022	2021	2020
FINANCING ACTIVITIES:			
Net increase (decrease) in transaction and savings deposits	(35,649)	154,547	180,380
Net increase (decrease) in certificates of deposit	(814)	(3,725)	(4,111)
Proceeds from issuance of subordinated debt, net of debt issuance costs	--	14,663	--
Net increase (decrease) in other borrowings	--	(5,000)	5,000
Repurchase and retirement of common stock	(2,515)	(253)	--
Net cash provided by financing activities	(38,978)	160,232	181,269
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(46,064)	(22,687)	54,413
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	84,079	106,766	52,353
CASH & CASH EQUIVALENTS AT END OF YEAR	$ 38,015	$ 84,079	$ 106,766
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest expense	$ 2,638	$ 1,571	$ 1,130
Income taxes	$ 4,450	$ 2,230	$ 2,100
Supplemental noncash disclosures:			
Initial recognition of right-of-use assets	$ 1,902	$ --	$ --
Initial recognition of lease liabilities	$ 1,902	$ --	$ --
Transfer of securities from available for sale to held to maturity, at carrying value	$ 81,594	$ --	$ --
Transfer of unrealized losses on securities from available for sale to held to maturity	$ 8,916	$ --	$ --

See Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

On October 8, 2020 (the "Effective Date"), a bank holding company reorganization was completed whereby 1st Capital Bancorp (the "Company") became the parent holding company of 1st Capital Bank (the "Bank"). On the Effective Date, each of the Bank's outstanding shares of common stock converted into an equal number of shares of common stock of 1st Capital Bancorp, and the Bank became its wholly-owned subsidiary. The reorganization had no impact on prior year amounts presented in these consolidated financial statements. The Company's administrative headquarters is based in Salinas, California. The consolidated financial statements include the accounts of 1st Capital Bancorp and its wholly owned subsidiary, 1st Capital Bank. Intercompany accounts and transactions have been eliminated in consolidation.

1st Capital Bank opened for business on April 16, 2007. The Bank is chartered by the state of California and is subject to regulation by the California Department of Financial Protection and Innovation and the Federal Deposit Insurance Corporation (the "FDIC"). It is not a member of the Federal Reserve System. The Bank primarily markets to businesses, professionals, real estate investors, family commercial entities, and individuals located along the Central Coast region of California. The Bank's primary business is attracting checking, money market, savings, and certificate of deposit accounts through its branch facilities, remote branch deposit, and various electronic means, and investing such deposits and other available funds into loans, including real estate mortgages, commercial business loans, and construction loans. In addition, the Bank invests in securities and may utilize various sources of wholesale borrowings. The Bank also provides a range of fee-based services, including an array of treasury management services. The Bank operates full-service branch offices in Monterey, Salinas, King City, San Luis Obispo, and Santa Cruz, all located in Monterey County, San Luis Obispo County, Santa Cruz County, California. The Bank supplements its physical locations with a wide range of financial service delivery options including remote check scanning, remote branch deposit, on-line banking, telephone banking, courier service, electronic bill payment, remote ACH origination, mobile banking, and remote wire transfer request.

Deposits in the Bank are insured by the FDIC up to applicable legal limits.

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry.

Summary of Significant Accounting Policies

Subsequent Events – Management has reviewed all events occurring from December 31, 2022 through March 30, 2023, the date the financial statements were available to be issued, and determined that there were no reportable subsequent events.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent assets and liabilities as of the balance sheet date and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties -- The lack of soundness of other financial institutions or financial market utilities may adversely affect the Company. The Company's ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated because of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial institutions or financial market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and losses of client, creditor and counterparty confidence and could lead to losses or defaults by other financial institutions, or the Company.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, interest-bearing transaction deposits in other financial institutions, securities purchased under agreements to resell with original maturities of three months or less, and certificates of deposit with original maturities of three months or less. Generally, federal funds are sold on an overnight basis. For purposes of the Statements of Cash Flows, net cash flows are reported for client loans held for investment, client deposit accounts, securities purchased under agreements to resell, and certificates of deposit with original maturities greater than three months. At December 31, 2022, the Company maintained "due from" noninterest-bearing account balances at its correspondent banks (excluding the Federal Reserve Bank of San Francisco, or "FRB," and excluding the

Federal Home Loan Bank of San Francisco, or "FHLB") of $1.4 million, of which $342 thousand was not fully FDIC insured. The Company earns interest on its deposit balances maintained at the FRB and FHLB.

Restrictions on Cash – There was no Federal Reserve Bank regulatory requirement at December 31, 2022 or 2021, due to the Federal Reserve Board reducing reserve requirements to zero effective March 26, 2020.

Debt Securities – Debt securities to be held for indefinite periods of time, including debt securities that management intends to use as part of its asset / liability management strategy that may be sold in response to changes in interest rates, loan prepayments, or other factors, are classified as available for sale. Debt securities available for sale are carried at fair value. Gains or losses on the sale of debt securities are determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to contractual maturity, except for debt securities with early call provisions, in which case premiums are recognized in interest income using the interest method over the period to the first call date and discounts are recognized in interest income using the interest method over the period to the contractual maturity date. For mortgage-backed securities and collateralized mortgage obligations, the amortization or accretion is based on the estimated lives of the debt securities. The lives of these debt securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. Unrealized holding gains or losses, net of tax, for debt securities available for sale are reported within accumulated other comprehensive income, which is a separate component of stockholders' equity, until realized.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Debt securities held to maturity are reported at amortized cost, subject to an impairment test. Realized gains and losses for these securities are reported in earnings. Dividend and interest income, including amortization of premium and discount, are included in earnings.

Management determines the appropriate classification of its debt securities at the time of purchase and may only change the classification in certain limited circumstances. All transfers between classifications are accounted for at fair value.

A debt security is impaired when its carrying value is greater than its fair value. Debt securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain its investment in the debt securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the debt security or it is more likely than not that the Company will not be required to sell the debt security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the debt security or it is more likely than not that the Company will be required to sell the debt security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings. There was no other than temporary impairment at December 31, 2022 or 2021.

Loans Held for Sale – Loans held for sale are carried at the lower of aggregate net cost, including qualified deferred fees and costs, or fair value, grouped by category. Unrealized losses by category are recognized via a charge against earnings. Realized gains and losses on loans held for sale are accounted for under the specific identification method. Qualified deferred loan origination fees and costs are not amortized during the period the loans are held for sale. Transfers of loans held for sale to the held-for-investment portfolio are recorded at the lower of cost or estimated market value on the transfer date. The Company did not have any loans held for sale at December 31, 2022 or 2021.

Loans Receivable Held for Investment – Loans receivable held for investment are those loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff. Loans receivable held for investment are stated at unpaid principal balances less undisbursed loan funds, unearned discounts, deferred loan origination fees, and allowances for loan losses, plus deferred direct loan origination costs and unamortized premiums.

Interest Income on Loans – Interest income on loans is accrued and credited to income as it is earned. However, interest generally is not accrued on loans over 90 days contractually delinquent. In addition, interest is not accrued on loans that are less than 90 days contractually delinquent, but where management has identified concern over future collection. Accrued interest income is reversed when a loan is placed on non-accrual status. Discounts, premiums, deferred loan origination fees and deferred direct loan origination costs are amortized into interest income over the contractual lives of the related loans using the interest method, except when a loan is in non-accrual status. When a loan is paid off or is sold, any unamortized balance of any related premiums, discounts, loan origination fees, and direct loan origination costs is recognized in income. Payments received on non-accrual loans may be allocated between principal and interest or may be recorded entirely as reductions in principal based upon management's opinion of the ultimate risk of loss on the individual loan. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Troubled Debt Restructurings – A loan is considered a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to the borrower's financial difficulties, provides the borrower certain concessions that it would not normally consider. The concessions are provided with the objective of maximizing the recovery of the Company's investment. A troubled debt restructuring includes situations in which the Company accepts a note (secured or unsecured) from a third party in payment of its receivable from the borrower, other assets in payment of the loan, an equity interest in the borrower or its assets in lieu of the Company's receivable under which the value received is less than the face amount of the debt, or a modification of the terms of the debt including, but not limited to: (i) a reduction in the stated interest rate to a below-market rate; (ii) an extension of maturity at an interest rate or other terms below market; (iii) a reduction in the face amount of the debt; and / or (iv) a reduction in the accrued interest receivable. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and are measured for impairment as described below.

Impaired Loans – The Company considers a loan to be impaired when it is deemed probable by management that the Company will be unable to collect all contractual interest and contractual principal payments in accordance with the terms of the original loan agreement. In evaluating whether a loan is considered impaired, insignificant delays or shortfalls in payments in the absence of other facts and circumstances would not alone lead to the conclusion that a loan is impaired. Factors considered in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

The Company includes among impaired loans all loans that: (i) are contractually delinquent 90 days or more; (ii) meet the definition of a troubled debt restructuring; (iii) are classified in part or in whole as either doubtful or loss; and (iv) have been placed on non-accrual status. The Company may also classify other loans as impaired based upon their specific circumstances. Loans identified as impaired are evaluated and have a specific loss allowance applied to adjust the loan to fair value, or the impaired amount is charged off.

The Company accounts for impaired loans, except those loans that are accounted for at market value or at the lower of cost or market value, at the present value of the expected future cash flows discounted at the loan's effective interest rate at the date of initial impairment, or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. The Company evaluates the collectability of both contractual interest and contractual principal when assessing the need for a loss accrual for impaired loans. Payments received on impaired non-accrual loans may be allocated between principal and interest or may be recorded entirely as a reduction in principal based upon management's opinion of the ultimate risk of loss on the individual loan. Interest income on other impaired loans is recognized on an accrual basis. The Company had $210 thousand of impaired loans as of December 31, 2022 and $354 thousand of impaired loans as of December 31, 2021.

The Company may acquire loans through business combinations or purchases for which differences may exist between the contractual cash flows and the cash flows expected to be collected when due, at least in part due to credit quality, and are classified as purchased credit impaired. When the Company acquires such loans, the yield that may be accreted is limited to the excess of the expected cash flows at acquisition over the Company's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected are recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected are recognized as impairments. The Company does not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. The Company did not have any loans accounted for under these policies as of December 31, 2022 or 2021.

Allowance for Loan Losses – The Bank maintains an allowance for loan losses (the "allowance"), which is a valuation allowance, to absorb probable incurred credit losses. The allowance is based on ongoing assessments of the probable estimated losses. Loans are charged against the allowance when management believes the principal to not be recoverable. The allowance is increased by the provision for loan losses. The provision for loan losses is charged against current period earnings. The allowance is decreased by the amount of charge-offs, net of recoveries. While allocations of the allowance for loan losses may be made for specific loans, the entire allowance for loan losses is available for any loan that should be charged off.

The Company's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula (or general) allowance, specific allowances, and the unallocated allowance.

The determination of the general allowance for loans that are collectively evaluated for impairment is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company, its peers, or a combination thereof for a period of forty consecutive quarters prior to the most current year end. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

These loss factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Construction and land, including farmland – Construction and land, including farmland loans, generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified costs and timelines. Trends in the construction industry significantly affect the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly affect the credit quality of these loans, as property values determine the economic viability of construction projects.

Multifamily and commercial and industrial real estate – Multifamily and commercial and industrial real estate mortgage loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except construction, land, and lot loans. Adverse economic developments or an overbuilt market affect multifamily and commercial and industrial real estate projects and may result in troubled loans. Trends in vacancy rates of multifamily and commercial properties affect the credit quality of these loans. High vacancy rates reduce operating revenues and the ability of properties to produce sufficient cash flow to service debt obligations.

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

Residential one to four unit real estate and home equity lines of credit – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends evidenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer – Consumer loans generally possess a high inherent level of risk as their collection is dependent upon the borrower's continuing financial stability, and thus, are more likely to be affected by adverse personal circumstances. They generally carry little to no collateral value and are highly dependent on borrower's excess cash flow.

Leases and other loans – Leases are typically made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for repayment of leases may be substantially dependent on the success of the business itself, which in turn, is often dependent in part upon general economic conditions. Other loans are typically various types of loans to not-for-profit organizations and other miscellaneous categories of loans and as such are vulnerable to risk factors that are largely outside the control of the Company.

The allowance for loan losses attributable to each portfolio segment, which includes both loans individually evaluated for impairment and loans that are collectively evaluated for impairment, are combined to determine the Company's overall allowance, which is included on the balance sheet and available for all loss exposures.

The Company assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and by the Company's regulators. During the Company's 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 do not differ by portfolio segment, and can be grouped into five major categories, defined as follows:

> **Pass** – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention. A watch loan is a pass graded loan where management has identified the need to monitor the status of the loan on a more frequent basis than would be typical for the type of loan.
>
> **Special Mention** – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.
>
> **Substandard** – A substandard loan is not adequately protected by the current 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 Company will sustain some loss if the deficiencies are not corrected.
>
> **Doubtful** – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.
>
> **Loss** – Loans classified loss are considered uncollectible and are charged off immediately.

Specific allowances are established for loans that are deemed impaired if the fair value of the loan or the collateral or the present value of expected future cash flows is estimated to be less than the Company's investment in the loan. In developing specific valuation allowances, the Company considers: (i) the estimated cash payments expected to be received by the Company; (ii) the estimated net sales proceeds from the loan or its collateral; (iii) cost of refurbishment; (iv) certain operating income and expenses; and (v) the costs of acquiring, holding, and disposing of the collateral. The Company charges off a portion of an impaired loan against the specific allowance when that portion is not considered recoverable.

While management uses currently available information to determine the allowance for loan losses, additions to or recoveries from the allowance may be necessary based upon a number of factors including, but not limited to, changes in economic conditions and credit quality trends, particularly in the real estate market, borrower financial status, the regulatory environment, real estate values, and loan portfolio size and composition. Many of these factors are beyond the Company's control and, accordingly, periodic provisions for loan losses may vary from time to time. In addition, various regulatory agencies, as an integral part of the examination process, periodically review the Company's allowance for loan losses. Such regulatory agencies may develop judgments different from those of management and may require the Company to recognize additional provisions. The Company's Board of Directors reviews and approves the adequacy of the allowance for loan losses at least quarterly.

Loan Commitments and Related Financial Instruments – Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet client financing needs. The face amount for these items represents the exposure to loss, before considering client collateral or ability to repay. Such financial instruments are recorded when they are funded.

Allowance for Off-Balance Sheet Credit Exposures – The Company also maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments is included in Other Liabilities on the Balance Sheets. The allowance for off-balance sheet commitments was $155 thousand at December 31, 2022 and $175 thousand at December 31, 2021.

Premises and Equipment – Premises and equipment are stated at cost, less accumulated depreciation and amortization. The Company depreciates or amortizes furniture and equipment on a straight-line basis over the estimated useful lives of the various assets (generally three to seven years) and amortizes leasehold improvements over the shorter of the asset's useful life or the remaining term of the lease including option periods the Company has the right, capacity, and intent to exercise. Gains and losses on disposition of premises and equipment are accounted for under the specific identification method. The cost of repairs and maintenance is charged to earnings as incurred, whereas expenditures that improve or extend the service lives of assets are capitalized.

Bank-Owned Life Insurance –The Company 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.

Federal Home Loan Bank Stock – As a member of the Federal Home Loan Bank System, the Company is required to maintain an investment in the capital stock of the Federal Home Loan Bank of San Francisco ("FHLB") based upon the size and profile of its balance sheet and the level of its FHLB advances. The Company's investment in FHLB stock is carried at cost, is classified as a restricted security, and is periodically evaluated for impairment based upon ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company's investment in FHLB stock was $4.1 million and $3.9 million at December 31, 2022 and 2021, respectively.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable plus the change in deferred tax assets and liabilities. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and deferred tax liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of certain existing assets and liabilities, and their respective bases for Federal income and California franchise taxes. Deferred tax assets and liabilities are calculated by applying current marginal tax rates against future deductible or taxable amounts. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Future tax benefits attributable to temporary differences are recognized to the extent the realization of such benefits is more likely than not.

Accounting for Uncertainty in Income Taxes – The Company considers all tax positions recognized in its financial statements for the likelihood of realization. When tax returns are filed, it is highly likely that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based upon all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above, if any, is reflected as a liability for unrecognized tax benefits in the accompanying Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the Statements of Income. The Company did not have reserves for uncertain tax positions as of December 31, 2022 and 2021.

Subordinated Debentures – Long-term borrowings are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest expense. Debt issuance costs are included in the carrying value of the associated borrowings are subsequently recognized in interest expense using the interest method over the life of the borrowing.

Earnings Per Share – Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock or securities convertible into common stock were exercised or converted, which currently consist of shares issuable upon the exercise of stock options and the vesting of outstanding restricted stock awards. Dilution resulting from the Company's Equity Incentive Plan is calculated using the treasury stock method. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Income – Comprehensive income includes net income and other comprehensive income. The Company's sources of other comprehensive income is derived from unrealized gains and losses on securities available for sale, unamortized unrealized gains and losses on securities transferred from available for sale to held to maturity, and unrealized gains and losses on derivatives. Reclassification adjustments result from gains or losses on securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose. Such adjustments are excluded from current period comprehensive income in order to avoid double counting.

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 2. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

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

Concentrations of Credit Risk – Most of the Company's business activity is with clients located within Monterey, San Luis Obispo, and Santa Cruz Counties. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy, business conditions, and real estate values in the Monterey, San Luis Obispo, and Santa Cruz County areas.

Segment Disclosure – The Company operates a single line of business (financial services) with no client accounting for more than 10% of its revenue and manages its operations under a unified management and reporting structure. Therefore, no additional segment disclosures are provided.

Share-Based Payments – The Company has one share-based compensation plan, the 1st Capital Company 2016 Equity Incentive Plan (the "Plan"), which has been approved by its shareholders and permits the grant of stock options and restricted stock awards for up to 722,050 shares of the Company's common stock. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Company's operating results, and government regulations. New shares are issued upon option exercise or vesting of restricted stock awards. In addition, the Plan requires that the exercise price of options may not be less than the fair market value of the stock at the date the option is granted, and that the exercise price must be paid in full at the time the option is exercised.

Share-based compensation expense is recorded for all stock options and restricted stock awards as the requisite service is rendered based on the grant date fair value of the awards.

Management estimates the fair value of each stock option award as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatilities are based on historical volatilities of the Company's common stock over a preceding period commensurate with the expected term of the options. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on this historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since the Company has no plans to pay cash dividends. In addition to these assumptions, management accounts for forfeitures as they occur.

Restricted share awards are grants of shares of the Company's common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or service and / or achieving specified performance goals. During the period of restriction, Plan participants holding restricted share awards have no voting or cash dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors as reflected in each award agreement. The restricted stock awards are considered fixed awards as the number of shares and fair value are known at the date of grant. The fair value for restricted stock awards is determined by the market price of the Company's common stock on the date of grant.

The Company recognizes the share-based compensation expense over the vesting period of each award of restricted shares based upon the fair value of the common stock at the date of grant, and, if applicable, considering the probability of the performance criteria being achieved. Plan participants have the opportunity to elect tax information reporting of the award of restricted shares within thirty days of grant under Internal Revenue Code Section 83(b). To the extent Plan participants make such elections, the Company recognizes the expense for tax purposes more quickly than for book purposes, thereby generating a deferred tax liability.

Upon the exercise of each vested stock option and vesting of each restricted share award, the Company issues the associated common shares from its inventory of authorized common shares. All outstanding stock options and restricted stock awards under the Plan immediately vest in the event of a change in control of the Company. The shares associated with any stock options that are forfeited or expire unexercised and restricted share awards that fail to vest become available for re-issuance under the Plan.

Derivatives and Hedging Activities -- Derivatives are recognized on the balance sheet at fair value. On the date that we enter into a derivative contract, we designate the derivative as (1) a hedge of the fair value of an identified asset or liability ("fair value hedge"), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to an identified asset or liability ("cash flow hedge") or (3) a transaction not qualifying for hedge accounting ("free standing derivative"). For a fair value hedge, changes in the fair value of the derivative and, to the extent that it is effective, changes in the fair value of the hedged asset or liability, attributable to the hedged risk, are recorded in current period net income in the same financial statement category as the hedged item. For a cash flow hedge, changes in the fair value of the derivative, to the extent that it is effective, are recorded in other comprehensive income (loss) ("OCI"). These changes in fair value are subsequently reclassified to net income in the same period(s) that the hedged transaction affects net income in the same financial statement category as the hedged item. For free standing derivatives, changes in fair values are reported in current period other operating income.

2. FAIR VALUE

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 an asset or liability in an orderly transaction between market participants on the measurement date. Assets and liabilities measured at fair value are grouped into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2

Fair values determined by Level 2 inputs utilize significant inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 2 inputs also include quoted prices in markets that are not active and other inputs that are observable or that can be corroborated by observable market data.

Level 3

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Level 3 inputs often reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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.

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

Securities Available for Sale – The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based upon market prices of similar securities (Level 2). 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).

Derivatives -- The fair values of derivative financial instruments are based upon current market values, if available. If there are no relevant comparables, fair values are based on pricing models using current assumptions for interest rate swaps.

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

		Fair Value Measurements on a Recurring Basis at December 31, 2022, Using		
(Dollars in Thousands)	Fair Value 12/31/2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities Available for Sale	$ 233,530	$ --	$ 233,530	$ --
Derivatives	$ 973	$ --	$ --	$ 973

		Fair Value Measurements on a Recurring Basis at December 31, 2021, Using		
(Dollars in Thousands)	Fair Value 12/31/2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities Available for Sale	$ 333,869	$ --	$ 333,869	$ --

The Company 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. There were no assets that were measured at fair value on a non-recurring basis as of December 31, 2022 and 2021.

The exit price notion is required to be used when measuring the fair value of financial instruments for disclosure purposes. During the years ended December 31, 2022 and 2021, there were no transfers in or out of Levels 1, 2, or 3.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

(Dollars in Thousands)	Carrying Amount	Fair Value Measurements at December 31, 2022 Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 38,015	$ 38,015	$ --	$ --	$ 38,015
Securities available for sale	233,530	--	233,530	--	233,530
Securities held to maturity	71,039		68,863		68,863
Loans, net	557,091			515,092	515,092
Federal Home Loan Bank stock	4,058				N/A
Accrued interest receivable	3,292	--	1,666	1,626	3,292
Derivatives	3,222	--	--	3,222	3,222
Financial Liabilities					
Transaction and savings deposits	$ 851,952	$ 851,952	$ --	$ --	$ 851,952
Certificates of deposit	10,745	--	10,434	--	10,434
Borrowings	--	--	--	--	--
Subordinated debentures	14,738	---	13,583	--	13,583
Accrued interest payable	29	10	19	--	29

(Dollars in Thousands)	Carrying Amount	Fair Value Measurements at December 31, 2021 Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	$ 84,079	$ 84,079	$ --	$ --	$ 84,079
Securities available for sale	333,869	--	333,869	--	333,869
Loans, net	555,664	--	--	541,351	541,351
Federal Home Loan Bank stock	3,948				N/A
Accrued interest receivable	3,372	--	1,547	1,825	3,372
Financial Liabilities					
Transaction and savings deposits	$ 887,600	$ 887,600	$ --	$ --	$ 887,600
Certificates of deposit	11,560	--	11,548	--	11,548
Borrowings	--	--	--	--	--
Subordinated debentures	14,663	--	14,663	--	14,663
Accrued interest payable	22	7	15	--	22

The estimated fair value amounts have been determined by the Bank, at a specific point in time, using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange.

The fair value estimates presented herein are based upon pertinent information available to management as of December 31, 2022 and 2021. The fair value amounts have not been comprehensively reevaluated since the reporting date. Therefore, current estimates of fair value and the amounts realizable in current secondary market transactions may differ significantly from the amounts presented herein.

The estimated fair value amounts do not reflect any premium or discount that might be realized by offering the Company's entire holdings of a particular financial instrument for sale at one time. The estimated fair value amounts do not attempt to estimate the value of anticipated future business related to the financial instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a potential effect on fair value estimated and have not been considered in any of the estimates.

Because no active market exists for a significant portion of the Company'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. The use of different assumptions and / or estimation methodologies could have a material effect on the estimated fair value amounts.

The following methods and assumptions, not previously presented, were utilized by the Company in computing the estimated fair values:

Cash and Cash Equivalents - Current carrying amounts approximate estimated fair value, resulting in a Level 1 classification.

Loans Receivable Held for Investment – The fair value of loans is estimated on an exit price basis incorporating contractual cash flow, prepayments discount spreads, credit loss and liquidity premiums.

FHLB Stock – It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued Interest Receivable – Current carrying amounts approximate fair value, with the balances distributed according to the Level classification of the associated asset.

Transaction and Savings Deposit Accounts – The estimated fair value of checking, savings, and money market deposit accounts is the amount payable on demand at the reporting date, represented by the carrying value, resulting in a Level 1 classification.

Certificates of Deposit - Fair value has been estimated by discounting the contractual cash flows using current market rates for similar time deposits with comparable remaining terms, resulting in a Level 2 classification.

Accrued Interest Payable – Current carrying amounts approximate fair value, with balances distributed according to the Level classification of the associated liability.

Off-Balance Sheet Instruments – Off-balance sheet commitments to extend credit are primarily for adjustable-rate loans. The fair values of commitments are estimated based on fees currently charged to enter into similar agreements. These fees were not significant as of December 31, 2022 and 2021 and therefore have not been included in the above table.

3. DEBT SECURITIES

The amortized cost and estimated fair value of debt securities available for sale and held to maturity are presented below.

Available for Sale (Dollars in Thousands)	**December 31, 2022**			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Agency	$ --	$ --	$ --	$ --
Corporate	29,636	--	(3,267)	26,369
Municipal bonds	100,258	--	(17,652)	82,606
Non-agency asset-backed securities	24,177	--	(1,157)	23,020
Mortgage-backed securities including collateralized mortgage obligations	80,682	--	(9,046)	71,636
Commercial mortgage-backed securities	35,489	--	(5,590)	29,899
Total debt securities available for sale	$ 270,242	$ --	$ (36,712)	$ 233,530

Held to Maturity (Dollars in Thousands)	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrecognized Losses	Fair Value
Agency	$ 1,653	$ --	$ (150)	$ 1,503
Corporate	--	--	--	--
Municipal bonds	7,089	82	(61)	7,110
Non-agency asset-backed securities	--	--	--	--
Mortgage-backed securities including collateralized mortgage obligations	56,107	--	(1,717)	54,390
Commercial mortgage-backed securities	6,190	--	(331)	5,859
Total debt securities held to maturity	$ 71,039	$ 82	$ (2,259)	$ 68,862

Available for Sale (Dollars in Thousands)	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency	$ 1,939	$ --	$ (13)	$ 1,926
Corporate	19,274	23	(47)	19,250
Municipal bonds	115,530	1,763	(572)	116,721
Non-agency asset-backed securities	49,526	36	(322)	49,240
Mortgage-backed securities including collateralized mortgage obligations	109,426	325	(1,279)	108,472
Commercial mortgage-backed securities	38,796	104	(640)	38,260
Total debt securities available for sale	$ 334,491	$ 2,251	$ (2,873)	$ 333,869

There were no debt securities held to maturity at December 31, 2021.

During the year ended December 31, 2022, the Company transferred $81.6 million of debt securities classified as available for sale with $8.9 million of unrealized loss at transfer date to held to maturity. The unrealized loss at the date of transfer is accreted or amortized over the remaining life as a yield adjustment, similar to any other premium or discount. During the year ended December 31, 2021, there were no transfers of debt securities between classifications.

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

Available for Sale	Less than 12 Months		12 Months or Longer		Total	
(Dollars in Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency	$ --	$ --	$ --	$ --	$ --	$ --
Corporate	16,533	(1,894)	9,836	(1,373)	26,369	(3,267)
Municipal bonds	46,076	(8,810)	36,530	(8,842)	82,606	(17,652)
Non-agency asset-backed securities	9,990	(606)	13,030	(551)	23,020	(1,157)
Mortgage-backed securities including CMO's	28,033	(2,054)	43,603	(6,992)	71,636	(9,046)
Commercial mortgage-backed securities	2,730	(242)	27,169	(5,348)	29,899	(5,590)
Total debt securities available for sale	$ 103,362	$ (13,606)	$ 130,168	$ (23,106)	$ 233,530	$ (36,172)

Held to Maturity	Less than 12 Months		12 Months or Longer		Total	
(Dollars in Thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Agency	$ --	$ --	$ 1,503	$ (150)	$ 1,503	$ (150)
Corporate	--	--	--	--	--	--
Municipal bonds	1,888	(31)	1,220	(30)	3,108	(61)
Non-agency asset-backed securities	--	--	--	--	--	--
Mortgage-backed securities including CMO's	3,371	(165)	51,019	(1,552)	54,390	(1,717)
Commercial mortgage-backed securities	4,199	(209)	1,660	(122)	5,859	(331)
Total debt securities held to maturity	$ 9,458	$ (405)	$ 55,402	$ (1,854)	$ 64,860	$ (2,259)

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

	Less than 12 Months		12 Months or Longer		Total	
(Dollars in Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency	$ 1,926	$ (13)	--	--	$ 1,926	$ (13)
Corporate	13,718	(47)	--	--	13,718	(47)
Municipal bonds	50,009	(572)	--	--	50,009	(572)
Non-agency asset-backed securities	38,828	(322)	--	--	38,828	(322)
Mortgage-backed securities including CMO's	98,825	(1,279)	--	--	98,825	(1,279)
Commercial mortgage-backed securities	35,909	(640)	--	--	35,909	(640)
Total	$ 239,215	$ (2,873)	--	--	$ 239,215	$ (2,873)

Unrealized losses on investment securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in the fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

The following table shows the amortized cost and estimated fair value of the Company's securities by category and by year of contractual maturity. Actual maturities may differ from contractual maturities due to principal prepayments, priority of principal allocation within collateralized mortgage obligations, or rights of issuers to call obligations prior to maturity.

(Dollars in Thousands)	December 31, 2022 Amortized Cost	December 31, 2022 Fair Value
Corporate		
Due in one to five years	$ 10,829	$ 9,699
Due in five to ten years	18,807	16,670
Municipal bonds		
Due in one to five years	6,634	5,829
Due in five to ten years	9,808	8,505
Due beyond ten years	83,816	68,272
Non-agency asset-backed securities		
Due in five to ten years	2,008	1,853
Due beyond ten years	22,169	21,167
Mortgage-backed securities including collateralized mortgage obligations		
Due in one to five years	8,606	8,021
Due in five to ten years	4,887	4,624
Due beyond ten years	67,189	58,991
Commercial mortgage-backed securities		
Due in one to five years	2,405	2,240
Due in five to ten years	1,962	1,598
Due beyond ten years	31,122	26,061
Total debt securities available for sale	$ 270,242	$ 233.530

(Dollars in Thousands)	December 31, 2022 Amortized Cost	December 31, 2022 Fair Value
Agency		
Due in five to ten years	$ 1,653	$ 1,503
Municipal bonds		
Due in five to ten years	448	449
Due beyond ten years	6,641	6,661
Mortgage-backed securities including collateralized mortgage obligations		
Due beyond ten years	56,107	54,390
Commercial mortgage-backed securities		
Due in five to ten years	6,190	5,859
Total debt securities held to maturity	$ 71,039	$ 68,862

The Company from time to time pledges debt securities to the Federal Home Loan Bank as collateral for advances, to the State of California as collateral for certain deposits, to public entities as collateral for certain deposits, to the Federal Reserve Bank as collateral for borrowings, and to other financial institutions or securities dealers as collateral for borrowings.

The following table details the amortized cost and estimated fair value of debt securities pledged for various purposes:

(Dollars in Thousands)	December 31, 2022	
	Amortized Cost	Fair Value
Pledged to the State of California	$ 822	$ 688
Pledged to public entities	26,646	29,134
	$ 27,468	$ 29,822

(Dollars in Thousands)	December 31, 2021	
	Amortized Cost	Fair Value
Pledged to the State of California	$ 872	$ 887
Pledged to public entities	14,364	14,354
	$ 15,236	$ 15,241

4. LOANS RECEIVABLE HELD FOR INVESTMENT

Loans receivable held for investment, net, are summarized as follows:

(Dollars in Thousands)	December 31,	
	2022	2021
Multifamily and Commercial Real Estate		
Industrial commercial real estate	$ 188,374	$ 185,938
Owner-occupied commercial real estate	108,140	89,087
Multifamily	79,227	82,231
Subtotal	375,741	357,256
Residential one to four units	54,609	61,210
Construction and land (including farmland)	14,290	28,260
Home equity lines of credit	4,690	6,087
Commercial and industrial	44,845	72,557
Consumer	26,446	36,613
Leases and other loans	43,817	2,259
Total loans receivable held for investment	564,438	564,242
Allowance for loan losses	(7,347)	(8,578)
Total loans receivable held for investment, net	$ 557,091	$ 555,664

The amounts above are shown net of unamortized purchase premiums and discounts, deferred loan fees, and deferred direct origination costs. These items increased the above reported total by $1.8 million at December 31, 2022, and increased the above reported total by $1.5 million at December 31, 2021.

The following table presents the aging of total loans receivable held for investment in past-due loans as of December 31, 2022 and 2021 by class of loans:

December 31, 2022	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Multifamily and Commercial Real Estate	$ -	$ -	$ -	$ -	$ 375,741	$ 375,741
Residential one to four units	1,429	-	-	1,429	53,180	54,609
Construction and land (including farmland)	-	-	-	-	14,290	14,290
Home equity lines of credit	-	-	-	-	4,690	4,690
Commercial and industrial	-	-	-	-	44,845	44,845
Consumer	530	401	209	1,140	25,306	26,446
Leases and other loans	680	93	330	1,103	42,714	43,817
Total loans receivable held for investment	$ 2,639	$ 494	$ 539	$ 3,672	$ 560,766	$ 564,438

December 31, 2021	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Multifamily and Commercial Real Estate	$ -	$ -	$ -	$ -	$ 357,256	$ 357,256
Residential one to four units	623	601	-	1,224	59,986	61,210
Construction and land (including farmland)	-	-	-	-	28,260	28,260
Home equity lines of credit	-	-	-	-	6,087	6,087
Commercial and industrial	-	-	-	-	72,557	72,557
Consumer	167	35	59	261	36,352	36,613
Leases and other loans	-	-	-	-	2,259	2,259
Total loans receivable held for investment	$ 790	$ 636	$ 59	$ 1,485	$ 562,757	$ 564,242

The Company had loans on non-accrual status totaling zero and $898 thousand as of December 31, 2022 and 2021, respectively. There was no interest foregone on non-accrual loans in 2022 and 2021.

As of December 31, 2022 and 2021, the Company had $192 thousand and $264 thousand recorded investment in troubled debt restructurings, respectively. The Company allocated allowances of zero and $84 thousand for those loans as of December 31, 2022 and 2021, respectively. The Company had not committed to lend additional amounts associated with loans that were classified as troubled debt restructurings as of December 31, 2022 and 2021.

There were no loans modified as troubled debt restructurings during the years ended December 31, 2022 and 2021.

During the years ended December 31, 2022, 2021, 2020, no troubled debt restructurings have subsequently defaulted.

Compensation expenses totaling $1.3 million, $1.6 million, and $1.8 million were deferred as direct loan origination costs during the years ended December 31, 2022, 2021, and 2020, respectively.

The Company from time to time pledges certain loans to the Federal Home Loan Bank of San Francisco (“FHLB”) and the Federal Reserve Bank (“FRB”) as collateral for borrowings. The FHLB currently has a blanket lien on a majority of the Company’s loans but accepts a subordinated security position for certain loans pledged to the FRB as specified under an inter-creditor agreement. The Company had loans totaling $564 million pledged to either the FHLB or FRB as of December 31, 2022 and $563 million pledged to either the FHLB or FRB as of December 31, 2021. Loans generally are made on the basis of a secure repayment source, which is based on a detailed cash flow analysis; however, collateral is generally a secondary source of repayment for loan qualification.

5. ALLOWANCE FOR LOAN LOSSES

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022.

(Dollars in thousands)	Multifamily and Commercial & Industrial Real Estate	Resi-dential 1 to 4 Units	Constructio and Land (Including Farmland)	Home Equity Lines of Credit	Commercial and Industrial	Consumer	Leases and Other Loans	Unallocated	Total
Allowance for Loan Losses									
Balance, beginning of period	$ 3,634	$ 917	$ 619	$ 53	$ 1,239	$ 1,355	$ 37	$ 724	$ 8,578
Provision for loan losses	(273)	(431)	(530)	13	(246)	2,004	710	(724)	523
Charge-offs	--	--	--	--	--	(2,062)	--	--	(2,062)
Recoveries	--	--	--	--	48	260	--	--	308
Balance, end of period	$ 3,361	$ 486	$ 89	$ 66	$ 1,041	$ 1,557	$ 747	$ --	$ 7,347

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2021.

(Dollars in thousands)	Multifamily and Commercial & Industrial Real Estate	Resi-dential 1 to 4 Units	Constructio and Land (Including Farmland)	Home Equity Lines of Credit	Commercial and Industrial	Consumer	Leases and Other Loans	Unallocated	Total
Allowance for Loan Losses									
Balance, beginning of period	$ 2,848	$ 2,513	$ 520	$ 113	$ 2,509	$ -	$ 47	$ 266	$ 8,816
Provision for loan losses	786	(1,596)	99	(60)	(1,364)	1,687	(10)	458	--
Charge-offs	--	--	--	--	--	(332)	--	--	(332)
Recoveries	--	--	--	--	94	--	--	--	94
Balance, end of period	$ 3,634	$ 917	$ 619	$ 53	$ 1,239	$ 1,355	$ 37	$ 724	$ 8,578

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2020.

(Dollars in Thousands) Allowance for Loan Losses	Multifamily and Commercial & Industrial Real Estate	Residential 1 to 4 Units	Construction and Land (Including Farmland)	Home Equity Lines of Credit	Commercial and Industrial	Leases and Other Loans	Unallocated	Total
Balance, beginning of period	$ 2,351	$ 1,463	$ 509	$ 66	$ 1,647	$ 124	$ 434	$ 6,594
Provision for loan losses	497	1,050	11	47	765	(77)	(168)	2,125
Charge-offs	--	--	--	--	--	--	--	--
Recoveries	--	--	--	--	97	--	--	97
Balance, end of period	$ 2,848	$ 2,513	$ 520	$ 113	$ 2,509	$ 47	$ 266	$ 8,816

The following table shows the allocation of the allowance for loan losses and the recorded investment in loans at December 31, 2022 and 2021 by portfolio segment and by impairment methodology. The Company had zero unallocated allowance for loan losses at December 31, 2022 and $724 thousand unallocated allowance for loan losses at December 31, 2021.

December 31, 2022	Multifamily and Commercial & Industrial Real Estate	Residential 1 to 4 Units	Construction And Land (Including Farmland)	Home Equity Lines of Credit	Commercial and Industrial	Consumer	Leases and Other Loans	Unallocated	Total
Allowance for loan losses									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ 154	$ -	$ 154
Collectively evaluated for impairment	3,361	486	89	66	1,041	1,557	593	-	7,193
Total	$ 3,361	$ 486	$ 89	$ 66	$ 1,041	$ 1,557	$ 747	$ -	$ 7,347
Loans									
Individually evaluated for impairment (net investment)	$ -	$ -	$ -	$ -	$ -	$ -	$ 210	$ -	$ 210
Collectively evaluated for impairment	375,741	54,609	14,290	4,690	44,845	26,446	43,607	-	564,228
Total	$ 375,741	$ 54,609	$ 14,290	$ 4,690	$ 44,845	$ 26,446	$ 43,817	$ -	$ 564,438

December 31, 2021	Multifamily and Commercial & Industrial Real Estate	Residential 1 to 4 Units	Construction And Land (Including Farmland)	Home Equity Lines of Credit	Commercial and Industrial	Consumer	Leases and Other Loans	Unallocated	Total
Allowance for loan losses									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 169		$ -	$ -	$ 169
Collectively evaluated for impairment	3,634	917	619	53	1,070	1,355	37	724	8,409
Total	$ 3,634	$ 917	$ 619	$ 53	$ 1,239	$ 1,355	$ 37	$ 724	$ 8,578
Loans									
Individually evaluated for impairment (net investment)	$ -	$ 555	$ -	$ -	$ 354		$ -		$ 909
Collectively evaluated for impairment	357,256	60,655	28,260	6,087	72,203	36,613	2,259	-	563,333
Total	$ 357,256	$ 61,210	$ 28,260	$ 6,087	$ 72,557	$ 36,613	$ 2,259	$ -	$ 564,242

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

December 31, 2022	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded						
Multifamily and commercial & industrial real estate	$ -	$ -	$ -	$ -	$ -	$ -
Construction / land (including farmland)	-	-	-	-	-	-
Commercial and industrial						
Home equity lines of credit	-	-	-	-	-	-
Residential 1 to 4 units		-	-	-	-	-
Leases and other loans	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
With an allowance recorded						
Multifamily and commercial & industrial real estate	$ -	$ -	$ -	$ -	$ -	$ -
Construction / land (including farmland)	-	-	-	-	-	-
Commercial and industrial						
Home equity lines of credit	-	-	-	-	-	-
Residential 1 to 4 units	-	-	-	-	-	-
Leases and other loans	210	210	154	213	3	3
Subtotal	210	210	154	213	3	3
Total	$ 210	$ 210	$ 154	$ 213	$ 3	$ 3

December 31, 2021	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded						
Multifamily and commercial & industrial real estate	$ -	$ -	$ -	$ -	$ -	$ -
Construction / land (including farmland)	-	-	-	-	-	-
Commercial and industrial						
Home equity lines of credit	-	-	-	-	-	-
Residential 1 to 4 units	555	555	-	-	-	-
Leases and other loans	-	-	-	-	-	-
Subtotal	555	555	-	-	-	-
With an allowance recorded						
Multifamily and commercial & industrial real estate	$ -	$ -	$ -	$ -	$ -	$ -
Construction / land (including farmland)	-	-	-	-	-	-
Commercial and industrial	354	354	169	731	42	42
Home equity lines of credit	-	-	-	-	-	-
Residential 1 to 4 units	-	-	-	-	-	-
Leases and other loans	-	-	-	-	-	-
Subtotal	354	354	169	731	42	42
Total	$ 909	$ 909	$ 169	$ 731	$ 42	$ 42

The recorded investment in loans includes the unamortized or unaccreted balance of deferred loan origination costs, fees, points, purchase premiums, and purchase discounts, net. The accrued interest receivable component of the loans is not included due to immateriality.

The following table presents the loan portfolio by portfolio segment allocated by internal risk ratings at December 31, 2022 and 2021:

Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Multifamily and Commercial & Industrial Real Estate	Construction And Land (Including Farmland)	Commercial and Industrial	Home Equity Lines of Credit	Residential 1 to 4 Units	Consumer	Leases and Other Loans	Total
December 31, 2022								
Rating								
Pass / Watch	$ 374,060	$ 14,290	$ 44,466	$ 4,439	$ 54,609	$ 26,237	$ 43,697	$ 561,798
Special Mention	1,681		193	251			-	2,125
Substandard			186			209	120	515
Total	$ 375,741	$ 14,290	$ 44,845	$ 4,690	$ 54,609	$ 26,446	$ 43,817	$ 564,438

	Multifamily and Commercial & Industrial Real Estate	Construction And Land (Including Farmland)	Commercial and Industrial	Home Equity Lines of Credit	Residential 1 to 4 Units	Consumer	Leases and Other Loans	Total
December 31, 2021								
Rating								
Pass / Watch	$ 355,338	$ 28,260	$ 72,557	$ 6,087	$ 60,666	$ 36,554	$ 2,259	$ 561,721
Special Mention	1,918	-	-	-	-		-	1,918
Substandard	-	-	-	-	544	59	-	603
Total	$ 357,256	$ 28,260	$ 72,557	$ 6,087	$ 61,210	$ 36,613	$ 2,259	$ 564,242

6. FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank of San Francisco ("FHLB"), the Company is required to own capital stock in an amount specified by a formula promulgated by the FHLB. As of December 31,2022 and 2021, the Company owned 40,583 shares and 39,480 shares of $100 par value FHLB capital stock, respectively. The amount of capital stock owned at December 31, 2022 and 2021 meets the most recent formula determination.

7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

(Dollars in Thousands)	December 31, 2022	December 31, 2021
Furniture and equipment	$ 4,221	$ 4,253
Leasehold improvements	3,505	3,491
Total, at cost	7,726	7,744
Accumulated depreciation and amortization	(6,106)	(5,482)
Premises and equipment, net	$ 1,620	$ 2,262

Depreciation and amortization expense related to the Company's leasehold improvements, furniture, and equipment was $642 thousand, $702 thousand, and $749 thousand for the years ended December 31, 2022, 2021, and 2020, respectively.

8. DEPOSITS

Deposits are summarized as follows:

(Dollars in Thousands)	December 31, 2022 Balance	December 31, 2022 Weighted Average Rate	December 31, 2021 Balance	December 31, 2021 Weighted Average Rate
Noninterest-bearing demand deposits	$ 415,256	-- --	$ 463,991	--
Interest-bearing checking	75,242	0.04%	68,574	0.04%
Savings	147,161	0.56%	157,332	0.30%
Money market	214,293	0.93%	197,703	0.44%
Certificates of deposit, less than $100,000	1,977	0.28%	2,368	0.27%
Certificates of deposit, $100,000 to $250,000	3,604	0.46%	4,310	0.16%
Certificates of deposit, $250,000 or more	5,164	1.05%	4,882	0.39%
	$ 862,697	0.34%	$ 899,160	0.16%

The Company uses money market deposits acquired through the Insured Cash Sweep (ICS) program to offer its deposit clients full FDIC insurance coverage on their balances by placing them at multiple Company's with individual balances not exceeding the FDIC insured limit. In return, the Company may receive equal amounts of money market deposits through ICS from other institutions and their clients in reciprocal transactions. There were $31.5 million in reciprocal ICS deposits included above within the money market grouping at December 31, 2022 and no reciprocal ICS deposits included in the money market grouping at December 31, 2021.

The following table sets forth the maturity distribution of certificates of deposit:

(Dollars in Thousands)	December 31, 2022 Balance Less than $100,000	Balance $100,000 to $250,000	Balance $250,000 or More	Total
Three months or less	$ 604	$ 432	$ 617	$ 1,653
Over three through six months	291	867	407	1,565
Over six through twelve months	802	1,582	3,382	5,766
Over twelve months through two years	280	723	758	1,761
	$ 1,977	$ 3,604	$ 5,164	$ 10,745

The ten largest depositors at December 31, 2022 maintained balances of $86.7 million, representing 10% of total deposits. The ten largest depositors at December 31, 2021 maintained balances of $128.8 million, representing 14% of total deposits. One client represented 5% or more of the Company's deposits at December 31, 2022 and 2021, respectively.

Interest expense on deposits for the years ended December 31, 2022, 2021, and 2020 is summarized as follows:

(Dollars in Thousands)	2022	2021	2020
Interest-bearing checking	$ 24	$ 19	$ 13
Savings	524	374	308
Money market	1,168	764	516
Certificates of deposit, less than $100,000	6	7	14
Certificates of deposit, $100,000 to $250,000	7	9	55
Certificates of deposit, $250,000 or more	22	26	95
	$ 1,751	$ 1,199	$ 1,001

9. INCOME TAXES

Income tax expense for the years ended December 31, 2022, 2021, and 2020 consisted of the following:

(Dollars in Thousands)	2022	2021	2020
Current:			
Federal	$ 1,659	$ 2,455	$ 1,173
State	1,159	1,287	838
Total	2,818	3,742	2,011
Deferred:			
Federal	149	(650)	(59)
State	100	(188)	(182)
Total	249	(838)	(241)
Provision for income taxes	$ 3,067	$ 2,904	$ 1,770

Effective tax rates differ from the Federal statutory tax rate applied to income before income taxes due to the following:

	2022	2021	2020
Federal statutory tax rate	21.0%	21.0%	21.0%
State income taxes (net of Federal income tax benefit)	8.6%	8.2%	8.5%
Company-owned life insurance dividend income and benefits	(0.3)%	(0.4%)	(0.6%)
Interest on Federally tax-exempt securities	(3.1)%	(2.4%)	(1.1%)
Equity compensation	(0.2)%	(0.3%)	0.4%
Other	0.3%	1.5%	--
Effective tax rate	26.3%	27.6%	28.2%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities are as follows:

(Dollars in Thousands)	December 31, 2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 2,172	$ 2,536
Lease liabilities	766	772
Accrued expenses	613	541
Deferred loan fees, points, and discounts	517	447
State franchise tax	253	242
Equity-based compensation	194	117
Deferred compensation	243	225
Organization costs and other	--	6
Premises and equipment	245	174
Unrealized loss on securities available for sale	10,852	182
Unrealized loss on securities held to maturity	2,436	--
Total gross deferred tax assets	18,291	5,242

Deferred tax liabilities:		
Right-of-use assets	(744)	(745)
Deferred loan origination costs and premiums	(809)	(600)
Prepaid expenses	(26)	(43)
Other deferred tax liabilities	(1)	--
Premises and equipment accumulated depreciation	--	--
Unrealized gain on securities available for sale	--	--
Unrealized gain on derivatives	(288)	--
Total gross deferred tax liabilities	(1,868)	(1,388)
Net deferred tax assets	$ 16,423	$ 3,854

The Company does not have any material uncertain tax positions as of December 31, 2022 and does not expect that to materially change in the next twelve months.

The Company files income tax returns in the United States and California jurisdictions. Federal tax returns for 2019 through 2021 are currently open for examination. State tax returns for 2018 through 2021 are currently open for examination.

10. BORROWINGS

The Company is a member of the Federal Home Loan Bank of San Francisco ("FHLB"). As of December 31, 2022 and 2021, the Company had $201.2 million and $176.6 million in untapped borrowing capacity, respectively, available through the FHLB under which overnight and term advances were available. These advances are secured by assets including the Company's ownership interest in the capital stock of the FHLB and various types of qualifying whole loans. The Company had advances outstanding of $0, $0 and $5 million as of December 31, 2022, December 31, 2021 and December 31, 2020, respectively.

The Company had $28 million and $40 million in unsecured and uncommitted federal funds lines of credit from its correspondent banks as of December 31, 2022 and 2021, respectively. There were no borrowings outstanding under these federal funds lines of credit at December 31, 2022 or 2021.

The Company is approved for discount window access from the Federal Reserve Bank of San Francisco ("FRB"). At December 31, 2022 and 2021, the Company had available discount window borrowing capacity of $1.4 million and $2.5 million, respectively. As of December 31, 2022 and 2021, there were no discount window borrowings outstanding.

Refer to Note 4 regarding loans pledged to secure various potential future borrowings.

11. SUBORDINATED DEBENTURES

In June 2021, the Company issued $15.0 million aggregate principal amount of its 4.0% fixed-to-floating rate subordinated notes due 2036 in a private placement transaction to certain qualified buyers and accredited investors. The notes bear interest at an annual fixed rate of 4.0% with the first interest payment on the notes made December 30, 2021, and interest payable semiannually each June 30 and December 30 through June 2026. At December 31, 2022 the carrying value of the notes was $14.7 million, net of unamortized debt issuance costs of $262 thousand. From and including June 30, 2026, to but excluding the maturity date or the date of earlier redemption, the debt will bear interest at a floating rate equal to the then-current three-month SOFR plus a spread of 3.39% per annum, payable quarterly in arrears. The Company may, at its option, beginning with the interest payment on June 30, 2026 but not prior thereto redeem the subordinated notes, in whole or in part at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to but excluding the date of the redemption.

12. OPERATING LEASES

The Company leases its facilities under non-cancelable operating leases for varying periods extending through October 1, 2030. A majority of the leases provide for the payment of taxes, insurance, maintenance, and certain other operating costs associated with the leased premises in addition to the monthly rental payments. Many of the leases contain escalation clauses and extension provisions that could extend certain leases through 2031.

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

At December 31, 2022, right-of-use assets and lease liabilities were $2.5 million and $2.6 million, respectively. The right-of-use assets and lease liabilities are included on the balance sheet within the other assets and other liabilities line items, respectively. The weighted average lease term at December 31, 2022 is 4.7 years, and the weighted average discount rate used in the calculations is 2.39%. At December 31, 2022, all of the Company's leases are operating leases.

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

(Dollars in Thousands)	
2023	$ 803
2024	619
2025	482
2026	401
2027	122
Thereafter	346
Total lease payments	$ 2,773
Less: imputed interest	182
Present value of operating lease liability	$ 2,591

The Company accounts for the leases on its facilities under the "level yield" method, whereby the average cost over the contracted lease period is recognized each month. Rent expense, including operating costs reimbursed to landlords, totaling $766 thousand, $726 thousand, and $742 thousand was recognized in occupancy expense in the Statements of Income for the years ended December 31, 2022, 2021, and 2020, respectively. The Company did not have any short-term lease costs for the years ended December 31, 2022, 2021, and 2020.

13. COMMITMENTS AND CONTINGENCIES

The Company is subject to certain legal proceedings arising in the normal course of business. In the opinion of management, the outcomes of such proceedings should not have a material adverse effect on the Company's financial position or results of operations.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include letters of credit, commitments to originate fixed- and variable-rate loans, lines of credit, and construction loans in process, and involve, to varying degrees, elements of interest-rate risk and credit risk in excess of the amount recognized in the balance sheets. The Company uses the same credit policies in making commitments to originate loans and lines of credit as it does for on-balance sheet instruments.

Commitments to fund loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have expiration dates or other termination clauses. In addition, external market forces may affect the probability of commitments being exercised; therefore, total commitments outstanding do not necessarily represent future cash requirements.

At December 31, 2022 and 2021, the Company had commitments outstanding to make the following funds available under various types of loans:

(Dollars in Thousands)	Available Credit Commitments	
Credit Category	**December 31, 2022**	**December 31, 2021**
Commercial and industrial	$ 78,060	$ 67,903
Multifamily and commercial and industrial real estate	12,741	12,251
Home equity lines of credit	11,633	11,653
Construction and land (including farmland)	4,101	2,862
Other	3,871	3,153
	$ 110,406	$ 97,822

The Company may issue letters of credit to facilitate international trade (“commercial letters of credit”), guarantee certain payments by customers (“financial standby letters of credit”), and guarantee the performance of a customer to a third party (“performance standby letters of credit”). The Company had financial standby letters of credit of zero and $101 thousand at December 31, 2022 and 2021, respectively.

14. REGULATORY CAPITAL REQUIREMENTS AND OTHER REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel committee on Banking Supervision’s capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer for 2022 and 2021 was 2.50%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital, as the Bank made this election effective January 1, 2015. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2022 and 2021, 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 actual regulatory capital amounts and ratios of the Bank as of December 31, 2022 and 2021 are presented in the following table.

(Dollars in Thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Considered Well Capitalized under PCA Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2022						
Tier 1 Capital to Average Total Assets (Leverage)	$101,409	10.04%	$40,391	4.00%	$50,489	5.00%
Common Equity Tier 1 to Risk Weighted Assets	$101,409	15.21%	$29,999	4.50%	$43,331	6.50%
Tier 1 Capital to Risk Weighted Assets	$101,409	15.21%	$39,998	6.00%	$53,331	8.00%
Total Capital to Risk Weighted Assets	$108,911	16.34%	$53,331	8.00%	$66,663	10.00%

As of December 31, 2021						
Tier 1 Capital to Average Total Assets (Leverage)	$80,819	8.09%	$39,969	4.00%	$49,961	5.00%
Common Equity Tier 1 to Risk Weighted Assets	$80,819	12.82%	$28,372	4.50%	$40,982	6.50%
Tier 1 Capital to Risk Weighted Assets	$80,819	12.82%	$37,829	6.00%	$50,439	8.00%
Total Capital to Risk Weighted Assets	$88,711	14.07%	$50,439	8.00%	$63,049	10.00%

Under California banking laws, cash dividends declared by the Company may not, without prior regulatory approval, exceed the lesser of: (i) the retained earnings of the Company, or (ii) the net income of the Company for its last three fiscal years, less the amount of any distributions made by the Company to the shareholders of the Company during such period. At December 31, 2022, the Company had $17.6 million available for cash dividends under these restrictions.

15. SHARE-BASED PAYMENTS

The Board of Directors approved the 1st Capital Bank 2016 Equity Incentive Plan ("Plan") on June 8, 2016. The Plan replaced the 2007 Equity Incentive Plan. The Plan permits the grant of stock options and restricted share awards for up to 722,050 shares of the Company's common stock. The Plan will expire on June 8, 2026. No more options or restricted shares may be issued from the 2007 Equity Incentive Plan, but shares may be issued for exercises of outstanding options and for the vesting of restricted shares previously granted from the 2007 Equity Incentive Plan. Stock options may be incentive stock options or nonqualified stock options. Stock option exercise periods may be up to ten years, while the vesting schedule for stock options is based upon each specific option award. Restricted share awards may be time-based, performance-based, or both. Time-based restricted share awards may vest on a specified date or may vest pro-rata in arrears on each annual anniversary of the award date and become fully vested over the applicable time period as determined by the Board of Directors, in both cases typically five years. Vesting of performance-based restricted share awards is dependent upon achievement of criteria established by the Board of Directors for each award.

The Company accrues share-based compensation expense for stock options and restricted share awards over the vesting period based upon the fair value of the equity award at the date of grant and considering the probability of the performance criteria being achieved, if applicable. There were no performance-based stock options or restricted share awards granted or outstanding during 2022 and 2021.

A summary of the status of the restricted share awards and stock options outstanding under the Plan as of December 31, 2022, 2021, and 2020, and changes and related expense during the years ended December 31, 2022, 2021, and 2020, is as follows:

Restricted Share Awards

	2022		**2021**		**2020**	
(In Whole Shares; Dollars in Thousands Except Per Share Amounts)	**Shares**	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Awards outstanding at the beginning of the period	231,861	$12.53	217,675	$11.83	176,526	$ 13.62
Award activity during the period:						
Time-based awards granted	133,894	$13.18	120,750	$13.15	119,890	$ 9.88
Time-based awards forfeited	(77,100)	$13.43	(40,354)	$13.18	(28,752)	$ 12.25
Time-based awards vested	(66,054)	$12.85	(66,210)	$10.86	(49,989)	$ 13.31
Awards outstanding at the end of the period	222,601	$12.59	231,861	$12.53	217,675	$ 11.83
Restricted share award compensation expense	$ 825		$ 367		$ 664	

Stock Options

(In Whole Shares; Dollars in Thousands Except Per Share Amounts)	2022 Shares	2022 Weighted Average Exercise Price	2021 Shares	2021 Weighted Average Exercise Price	2020 Shares	2020 Weighted Average Exercise Price
Options outstanding at the beginning of the period	7,095	$8.25	14,190	$8.25	14,190	$ 8.25
Option activity during the period:						
Options exercised			--	--	--	--
Options forfeited	(7,095)	$8.25	(7,095)	$8.25	--	--
Options outstanding at the end of the period	--	--	7,095	$8.25	14,190	$ 8.25
Options vested and exercisable	--	--	7,095	$8.25	14,190	$ 8.25
Stock option compensation expense	$ --		$ --		$ --	

The Company did not award any stock option grants for the years ended December 31, 2022, 2021, and 2020. There are no stock options outstanding at December 31, 2022.

As of December 31, 2022, there was $2.2 million of total unrecognized compensation cost related to outstanding, unvested restricted shares awards granted under the Plan. This cost is expected to be recognized over the weighted average remaining period of approximately 4.7 years. The total fair value of restricted share awards vested in 2022, 2021, and 2020 was $620 thousand, $724 thousand, and $552 thousand, respectively.

At December 31, 2022, the intrinsic value of the 222,601 outstanding unvested restricted share awards was $2.4 million, based upon a market price of $10.86 per share. At December 31, 2021, the intrinsic value of the 231,861 outstanding unvested restricted share awards was $3.4 million, based upon a market price of $14.60 per share. At December 31, 2020, the intrinsic value of the 217,675 outstanding unvested restricted share awards was $2.57 million, based upon a market price of $11.80 per share.

16. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including directors, executive officers, and their affiliates.

An analysis of the activity of these loans for the years ended December 31, 2022 and 2021 is as follows:

(Dollars in Thousands)	2022	2021
Principal outstanding, beginning of period	$ 5,988	$ 2,453
New term loans and advances	14,115	4,707
Repayments	(17,154)	(1,172)
Principal outstanding, end of period	$ 2,949	$ 5,988
Credit commitments, end of period	$ 3,526	$ 8,867

Deposits from principal officers, directors, and their affiliates at December 31, 2022 and 2021 were $15.0 million and $17.6 million, respectively.

During the years ended December 31, 2022 and 2021, the Company did not purchase any goods or services from related parties, other than normal employee and director compensation and benefits and $12 thousand and $10 thousand paid in 2022 and 2021, respectively, for branch architectural services to the architectural firm for which a member of the Company's board of directors is a principal.

17. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company's sources of Non-Interest Income for the years ended December 31, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

(Dollars in Thousands)	2022	2021
Service charges on deposits:		
Account maintenance and analysis fees	$ 265	$ 130
Overdraft fees	60	43
Other	144	110
Bank-owned life insurance dividend income [1]	164	175
Gain on sales of loans [1]	76	155
Loss on sales of investments [1]	(1,150)	(77)
Other income [2]	915	377
Total non-interest income	$ 474	$ 913

1 = Not within the scope of ASC 606.
2 = For 2022, includes debit card fees, mortgage referral fees, wire transfer fees, and other income totaling $366 thousand that is within the scope of ASC 606; the remaining balance of $549 thousand represents loan servicing fees and insured cash sweep fees that are outside the scope of ASC 606. For 2021, includes debit card fees, mortgage referral fees, wire transfer fees, and other income totaling $308 thousand that is within the scope of ASC 606; the remaining balance of $69 thousand represents loan servicing fees and insured cash sweep fees that are outside the scope of ASC 606.

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts – The Company earns fees from its customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges, debit card transaction fees, statement rendering, and ACH fees, are recognized at the time the transaction is executed, as that is the point in time the Company fulfills the customer's request. Account maintenance fees and lockbox servicing fees are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits generally are withdrawn from the customer's account balance.

Other Income – The Company earns fees from its customers for certain other transaction-based services and safe deposit box rentals. Transaction-based fees, which include services such as debit card transactions, wire transfers, and other miscellaneous services, are recognized at the time the transaction is executed, as that is the point in time the Company fulfills the customer's request. Mortgage referral fees are recognized upon loan closing. Such fees may be withdrawn from the customer's account balance or billed separately.

18. OTHER NON-INTEREST EXPENSE

Other non-interest expense for the years ended December 31, 2022, 2021, and 2020 consisted of the following:

(Dollars in Thousands)	2022	2021	2020
Director expenses, including share-based compensation	$ 531	$ 490	$ 533
Customer service expenses	641	243	451
Licensing and software expenses	663	483	387
Telecommunications	444	639	270
Regulatory dues and assessments	507	162	206
Messenger service	184	177	153
Professional education	315	89	105
Operational expenses	301	561	118
Stationery and supplies	107	150	109
Provision for unfunded loan commitments	(21)	3	27
Other expenses	611	539	491
	$ 4,283	$ 3,536	$ 2,850

19. 401(k) RETIREMENT PLAN

The Company maintains the 1st Capital Bank 401(k) Profit Sharing Plan and Trust ("Plan") to enable employees to save for retirement under a tax-advantaged plan and to furnish employees the opportunity to directly manage their retirement assets through a variety of investment options. The Plan allows eligible employees to elect to contribute up to 92.0% of their eligible compensation to the Plan, subject to the annual contribution limit established by the Internal Revenue Service applicable to each employee. During 2019, the Company commenced 50% matching of the employee Plan contributions up to 8.0% of their eligible compensation. In addition, all Company matching contributions immediately became fully vested effective with the transition of the Plan to a safe harbor classification.

The Company recorded matching contribution expenses under the Plan of $353 thousand, $319 thousand, and $278 thousand during the years ended December 31, 2022, 2021, and 2020, respectively.

20. NONQUALIFIED DEFERRED COMPENSATION PLAN

The Company established the 1st Capital Bank Nonqualified Deferred Compensation Plan ("Plan") effective December 1, 2012. The Plan is a defined contribution program. Participants in the Plan are general unsecured creditors of the Company. The Plan was established for the purpose of providing the executive officers and certain other highly compensated employees an opportunity to defer compensation. Participants in the Plan may elect to defer annually any bonus or incentive compensation and any amount of base salary in excess of $3,000 per month. At the time of election to defer compensation, the participants must also elect a distribution date and a distribution method. Participants may elect to receive amounts payable in a lump sum or in annual installments over a designated period not to exceed ten years. The Company pays the administrative costs of the Plan, but does not make contributions to the Plan aside from interest credited. The Plan requires the Company to pay interest on the deferred balances at a rate equal to The Wall Street Journal Prime Rate on November 1 of the preceding year, set annually for each calendar year, subject to a floor of 0.00%. Participants were first eligible to contribute to the Plan on January 1, 2013. The Company recorded interest expense on deferred compensation of $29 thousand, $21 thousand, and $23 thousand for the years ended December 31, 2022, 2021, and 2020, respectively. The Company's total liability under the Plan was $822 thousand and $761 thousand at December 31, 2022 and 2021, respectively.

21. EARNINGS PER SHARE

The factors used in the earnings per share computation follow.

(Dollars in Thousands Except Per Share Amounts)	2022	2021	2020
Basic Earnings Per Share			
Net income	$ 8,580	$ 7,633	$ 4,505
Weighted average common shares outstanding	5,487,561	5,585,886	5,536,805
Basic earnings per common share	$ 1.56	$ 1.37	$ 0.81
Diluted Earnings Per Share			
Net income	$ 8,580	$ 7,633	$ 4,505
Weighted average common shares outstanding for basic earnings per common share	5,487,561	5,585,886	5,536,805
Add: Dilutive effects from equity compensation	58,986	94,351	46,182
Shares for diluted earnings per share	5,546,547	5,680,237	5,582,987
Diluted earnings per common share	$ 1.55	$ 1.34	$ 0.81

Anti-dilutive shares are shares of common stock issuable as a result of the vesting of restricted share awards or the exercise of stock options for which the assumed proceeds per share from the exercise price (in the case of stock options) and future associated compensation expense (in the case of restricted stock awards) are greater than the average market price for the Company's common stock for the reporting period. Anti-dilutive shares are not included in the computation of diluted earnings per share due to their anti-dilutive effect. The weighted average anti-dilutive shares totaled 67,986 for 2022 and 13,829 for 2021.

22. DERIVATIVES

The Company entered into an interest rate cap corridor of 2.50% and 4.00% in 2022 to manage exposure to interest rate risk. The original notional amount is $100 million with an effective date of April 26, 2024 and a maturity date of April 26, 2029. This hedge is designated as a cash flow hedge.

The Company does not use derivative financial instruments for trading or speculative purposes. This derivative financial instrument is recognized at fair value and presented within other assets on the Balance Sheet. The carrying value of derivatives at December 31, 2022 was $973 thousand. Gains and losses resulting from changes in the fair value of this derivative are recognized in the Statements of Comprehensive (Loss) Income. Interest expense related to this derivatives was $195 thousand for the year ended December 31, 2022 and was presented within Interest Expense – Other on the Income Statement.

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Owner
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Physician, Diagnostic and Interventional Radiology
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Chief Operating Officer

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