FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2022

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to _____________

FDIC Certificate No. 32203

Summit State Bank

(Exact Name of Registrant as Specified in its Charter)

California (State of Incorporation)	94-2878925 (I.R.S. Employer Identification No.)
500 Bicentennial Way, Santa Rosa, CA 95403 (Address of Principal Executive Offices)	707-568-6000 (Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SSBI	The NASDAQ Stock Market LLC

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

As of November 21, 2022, there were 6,734,919 shares of common stock outstanding.

SUMMIT STATE BANK

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Item 1 Financial Statements

SUMMIT STATE BANK
BALANCE SHEETS
(In thousands except share data)

	September 30, 2022 (Unaudited)	December 31, 2021 (1)
ASSETS		
Cash and due from banks	$ 42,818	$ 40,699
Investment securities:		
Available-for-sale (at fair value; amortized cost of $83,417 in 2022 and $69,902 in 2021)	68,694	69,367
Loans, less allowance for credit losses of $14,209 in 2022 and $12,329 in 2021	893,580	820,987
Bank premises and equipment, net	5,509	5,677
Investment in Federal Home Loan Bank stock, at cost	4,737	4,320
Goodwill	4,119	4,119
Affordable housing tax credit investments	8,964	3,500
Accrued interest receivable and other assets	15,391	9,411
Total assets	$ 1,043,812	$ 958,080
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 254,135	$ 234,824
Demand - interest-bearing	147,349	147,289
Savings	68,880	69,982
Money market	149,409	168,637
Time deposits that meet or exceed the FDIC insurance limit	102,660	29,255
Other time deposits	146,479	161,613
Total deposits	868,912	811,600
Federal Home Loan Bank advances	73,700	48,500
Junior subordinated debt, net	5,902	5,891
Affordable housing commitment	4,752	2,483
Accrued interest payable and other liabilities	6,125	5,324
Total liabilities	959,391	873,798
Commitments and contingencies (Note 6)		
Shareholders' equity		
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,687,959 in 2022 and 6,684,759 in 2021 (2)	37,145	37,014
Retained earnings	57,641	47,644
Accumulated other comprehensive loss, net	(10,365)	(376)
Total shareholders' equity	84,421	84,282
Total liabilities and shareholders' equity	$ 1,043,812	$ 958,080

(1) Information derived from audited financial statements.
(2) Adjusted for 10% stock dividend declared; effective October 29, 2021

The accompanying notes are an integral part of these unaudited financial statements.

SUMMIT STATE BANK
STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)
Interest income:				
Interest and fees on loans	$ 11,833	$ 10,159	$ 33,025	$ 29,752
Interest on deposits with banks	154	11	227	25
Interest on investment securities	485	360	1,312	1,139
Dividends on FHLB stock	69	71	203	176
Total interest income	12,541	10,601	34,767	31,092
Interest expense:				
Deposits	1,100	720	2,560	2,471
Federal Home Loan Bank advances	355	202	749	589
Junior Subordinated Debt	94	94	281	281
Total interest expense	1,549	1,016	3,590	3,341
Net interest income before provision for credit losses	10,992	9,585	31,177	27,751
Provision for credit losses on loans	753	-	1,876	335
Provision for credit losses on unfunded loan commitments	17	-	3	-
Net interest income after provision for credit losses and unfunded loan commitments	10,222	9,585	29,298	27,416
Non-interest income:				
Service charges on deposit accounts	219	227	640	638
Rental income	38	89	162	264
Net gain on loan sales	578	951	4,077	2,459
Net gain on securities	1	-	7	56
Other income	219	92	477	234
Total non-interest income	1,055	1,359	5,363	3,651
Non-interest expense:				
Salaries and employee benefits	3,449	3,326	10,724	9,496
Occupancy and equipment	405	394	1,230	1,227
Other expenses	1,679	1,830	5,163	4,704
Total non-interest expense	5,533	5,550	17,117	15,427
Income before provision for income taxes	5,744	5,394	17,544	15,640
Provision for income taxes	1,765	1,598	5,129	4,629
Net income	$ 3,979	$ 3,796	$ 12,415	$ 11,011
Basic earnings per common share (1)	$ 0.59	$ 0.57	$ 1.86	$ 1.65
Diluted earnings per common share (1)	$ 0.59	$ 0.57	$ 1.86	$ 1.65
Basic weighted average shares of common stock outstanding (1)	6,688	6,680	6,687	6,678
Diluted weighted average shares of common stock outstanding (1)	6,688	6,680	6,687	6,681

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

The accompanying notes are an integral part of these unaudited financial statements.

SUMMIT STATE BANK
STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)
Net income	$ 3,979	$ 3,796	$ 12,415	$ 11,011
Change in securities available-for-sale:				
Unrealized holding losses on available-for-sale securites arising during the period	(5,035)	(134)	(14,181)	(1,265)
Reclassification adjustment for gains realized in net income on available-for-sale securities	(1)	-	(7)	(56)
Net unrealized losses, before provision for income tax	(5,036)	(134)	(14,188)	(1,321)
Income tax benefit	1,491	39	4,200	391
Total other comprehensive loss, net of tax	(3,545)	(95)	(9,989)	(930)
Comprehensive income	$ 434	$ 3,701	$ 2,426	$ 10,081

The accompanying notes are an integral part of these unaudited financial statements.

SUMMIT STATE BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Months Ended
September 30, 2021 and 2022
(Unaudited)

(In thousands except per share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, July 1, 2021	6,070	$ 36,981	$ 41,694	$ 303	$ 78,978
Net income			3,796		3,796
Other comprehensive loss, net of tax				(95)	(95)
Exercise of stock options	7	33			33
Cash dividends - $0.12 per share			(729)		(729)
Balance, September 30, 2021	6,077	$ 37,014	$ 44,761	$ 208	$ 81,983
Balance, July 1, 2022	6,688	$ 37,014	$ 54,470	$ (6,820)	$ 84,664
Net income			3,979		3,979
Other comprehensive loss, net of tax				(3,545)	(3,545)
Stock based compensation - restriced stock		131			131
Cash dividends - $0.12 per share			(808)		(808)
Balance, September 30, 2022	6,688	$ 37,145	$ 57,641	$ (10,365)	$ 84,421

The accompanying notes are an integral part of these unaudited financial statements.

SUMMIT STATE BANK

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Nine Months Ended
September 30, 2021 and 2022
(Unaudited)

(In thousands except per share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2021	6,070	$ 36,981	$ 37,510	$ 1,138	$ 75,629
Net income			11,011		11,011
Other comprehensive loss, net of tax				(930)	(930)
Cumulative effect of change in accounting principle ASU 2016-13			(1,575)		(1,575)
Exercise of stock options	7	33			33
Cash dividends - $0.36 per share			(2,185)		(2,185)
Balance, September 30, 2021	6,077	$ 37,014	$ 44,761	$ 208	$ 81,983
Balance, January 1, 2022	6,685	$ 37,014	$ 47,644	$ (376)	$ 84,282
Net income			12,415		12,415
Other comprehensive loss, net of tax				(9,989)	(9,989)
Restricted stock granted	3				
Stock based compensation - restriced stock		131			131
Cash dividends - $0.36 per share			(2,418)		(2,418)
Balance, September 30, 2022	6,688	$ 37,145	$ 57,641	$ (10,365)	$ 84,421

The accompanying notes are an integral part of these unaudited financial statements.

SUMMIT STATE BANK
STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2022 (unaudited)	Nine Months Ended September 30, 2021 (unaudited)
Cash flows from operating activities:		
Net income	$ 12,415	$ 11,011
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	291	302
Securities amortization and accretion, net	102	160
Accretion of net deferred loan fees	(3,775)	(4,401)
Provision for credit losses on loans	1,876	335
Provision for credit losses on unfunded loan commitments	3	-
Net gain on securities	(7)	(56)
Net gain on loan sales	(4,077)	(2,459)
Amortization of debt issuance cost related to junior subordinated debt	11	11
Amortization of affordable housing tax credit investment	236	-
Net change in accrued interest receivable and other assets	(1,780)	(641)
Net change in accrued interest payable and other liabilities	735	500
Share-based compensation expense	194	661
Net cash from operating activities	6,224	5,423
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(15,349)	(24,185)
Proceeds from calls and maturities of available-for-sale investment securities	1,738	21,909
Purchase of Federal Home Loan Bank stock	(417)	(891)
Loan origination and principal collections, net	(130,829)	(72,924)
Proceeds from sales of loans other than loans originated for resale	64,212	30,634
Purchases of bank premises and equipment, net	(123)	(80)
Cash paid for affordable housing tax credit investment	(3,431)	-
Net cash used in investing activities	(84,199)	(45,537)
Cash flows from financing activities:		
Net change in demand, savings and money market deposits	(959)	58,687
Net change in certificates of deposit	58,271	(35,975)
Net change in short term Federal Home Loan Bank advances	25,200	31,500
Repayment of Long Term Advances from Federal Home Loan Bank	-	(5,000)
Dividends paid on common stock	(2,418)	(2,185)
Proceeds from exercise of stock options	-	33
Net cash from financing activities	80,094	47,060
Net change in cash and cash equivalents	2,119	6,946
Cash and cash equivalents at beginning of year	40,699	30,826
Cash and cash equivalents at end of period	$ 42,818	$ 37,772
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 3,449	$ 3,501
Income taxes	$ 4,310	$ 4,410
Non-Cash Investing and Financing Activities:		
Affordable housing tax credit investment	$ 5,700	$ -
Affordable housing tax credit commitment	$ (5,700)	$ -
Net unrealized (losses) gains on available-for-sale securities	$ (14,188)	$ (1,321)
Cumulative effect of CECL adoption	$ -	$ 1,575

The accompanying notes are an integral part of these unaudited financial statements.

SUMMIT STATE BANK

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the “Bank”) received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the State of California Department of Financial Protection & Innovation and the Federal Deposit Insurance Corporation. The Bank was incorporated on December 20, 1982 under the name Summit Savings. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business, nonprofit organization and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans.

The financial statements as of September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 are unaudited. In the opinion of management, these unaudited financial statements contain all adjustments, consisting only of normal recurring accruals necessary to present fairly the financial statements of the Bank.

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 8 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. These unaudited financial statements do not include all disclosures associated with the Bank’s annual financial statements and notes thereto and accordingly, should be read in conjunction with the restated financial statements and notes thereto included in the Bank’s Annual Report for the year ended December 31, 2021 on Form 10-K/A, Amendment No. 1, on file with the FDIC (the Form 10-K/A may also be found at www.summitstatebank.com).

The accompanying accounting and reporting policies of the Bank conform to U.S. Generally Accepted Accounting Principles and prevailing practices within the banking industry.

Restatement of Statement of Cash Flows

Subsequent to the issuance of the Bank’s Financial Statements for the year-ended December 31, 2021, quarter ended March 31, 2022, and quarter and six-months ended June 30, 2022 (the “Affected Financial Statements”), management determined that the Statement of Cash Flows incorrectly identified the line “Proceeds from sales of loans other than loans originated for resale” within “cash flows from operating activities” versus the proper classification within “cash flows from investing activities” on the statement of cash flows. As a result, the Bank restated the Affected Financial Statements. On November 21, 2022, the Bank filed amendments to its Annual Report on From 10-K for the year ended December 31, 2021 and its Quarterly Reports on Form 10-Q for the periods ended March 31, 2022 and June 30, 2022, reflect the restatement of the Affected Financial Statements.

The accompanying unaudited interim financial statements reflect "Proceeds from sales of loans other than loans originated for resale" within "cash flows from investing activities" on the statement of cash flows consistent with U.S. Generally Accepted Accounting Principles.

Financial Statement Reclassifications

In response to the identified material weakness for the reporting period ending September 30, 2022, management will include this section in the Bank's Note 1 to more clearly identify if any reclassifications have occurred in the Financial Statements and provide a summary of those changes, if applicable. If no reclassifications are made, this section will state that as such.

For the quarter ended September 30, 2022, no reclassifications have occurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for credit losses, goodwill impairment, fair values of investment securities and the determination of potential impairment of affordable housing tax credit investment are particularly subject to change.

Operating Segments

While the Bank's chief decision makers monitor the revenue streams of the Bank's various products and services, operations are managed, and financial performance is evaluated on a bank-wide basis. Operating segments are aggregated into one segment as operating results for all segments are substantially the same.

Securities

Debt securities classified as available-for-sale are available for future liquidity requirements and may be sold prior to maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Debt securities classified as available-for-sale are measured at fair value and unrealized holding gains and losses are excluded from earnings and reported net of tax as accumulated other comprehensive income (AOCI), a component of shareholders' equity, until realized. (See Note 9 Fair Value for a more complete discussion of accounting for the fair value of financial instruments.) Realized gains and losses on sale are computed on the specific identification method and are included in earnings on the trade date.

Allowance for Credit Losses – Available-for-Sale ("AFS") Debt Securities

For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If the Bank intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings. If the Bank does not intend to sell the security and it is not more likely that the Bank will be required to sell the security, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Projected cash flows are discounted by the current effective interest rate. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to AOCI.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the non-collectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

As of September 30, 2022 and December 31, 2021, the Bank determined that the unrealized loss positions in AFS securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded. See Note 2 Investment Securities Available-for-Sale for more information.

A debt security is placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There were no accrued interest amounts reversed against interest income for the three or nine months ended September 30, 2022 or 2021. Accrued interest receivable on available-for-sale debt securities totaled $556,000 at September 30, 2022 compared to $363,000 at December 31, 2021 and is excluded from the estimate of credit losses as of September 30, 2022 and December 31, 2021.

Allowance and Provision for Credit Losses – Loans and Leases

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. The Bank has elected to exclude accrued interest receivable from the amortized cost basis in the estimate of the allowance for credit losses. The provision for credit losses reflects the amount required to maintain the allowance for credit losses at an appropriate level based upon management's evaluation of the adequacy of collective and individual loss reserves. The Bank's methodologies for determining the adequacy of allowance for credit losses are set forth in a formal policy and take into consideration the need for a valuation allowance for loans evaluated on a collective pool basis which have similar risk characteristics, as well as allowances that are tied to individual loans that do not share risk characteristics. The Bank increases its allowance for credit losses by charging provisions for credit losses on its statement of income. Losses related to specific assets are applied as a reduction of the carrying value of the assets and charged against the allowance for credit loss when management believes the non-collectability of a loan balance is confirmed. Recoveries on previously charged-off loans are credited to the allowance for credit losses.

Management conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more comprehensive evaluation quarterly. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio and economic conditions. These adjustments to historical loss factors include, among others, changes in the size and composition of the loan portfolio, delinquent and nonaccrual loans, and current and projected economic conditions, as well as changes in economic factors including unemployment rates, property values, Consumer Price Index, Gross Domestic Product, or other relevant factors.

The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. In estimating the component of the allowance for credit losses for loans that share common risk characteristics, loans are pooled based on the loan types and areas of risk concentration. For loans evaluated collectively as a pool, the allowance for credit losses is calculated using regression analysis (includes non-accrual rates, gross charge-offs and recovery rates), an estimate of the life of each loan, and historical losses adjusted for economic forecasts and current conditions.

Historical credit loss assumptions for each pool are estimated using an econometric timeseries regression analysis which establishes a correlation between non-accrual rates, gross charge-off rates, and recovery rates. This is a three-part process that first separately analyzes non-accrual rates by loan pool, then calculates gross charge-off rates using the modeled non-accrual rate from the prior step, and third, calculates the recovery rate using the modeled rate from the prior step. This model implies historical values of non-accruals are directly correlated to current charge-offs, which is directly correlated to future recoveries. In calculating these separately over time, the model incorporates the entire default cycle of a loan pool while also including the appropriate time lags between events.

The model captures a complete cycle of historical loss data from the last recession (2009 through 2016) and management uses economic indicators from the Office of the Comptroller of the Currency (OCC)'s Dodd-Frank Act Stress Test (DFAST) historical dataset of actual econometric national variables to adjust historical loss rates. The adjustment to historical loss rates better reflects management's expectations of future conditions over the remaining lives of the loans in the portfolio based on reasonable and supportable forecasts. These economic indicators are selected based on correlation to the Bank's historical credit loss experience and are evaluated for each loan category to ensure proper correlation relationships using economic logic. The DFAST dataset incorporates many variables including unemployment, gross domestic product, consumer price index, real estate price index, treasury yields, and mortgage rates.

The effective life of loan pool is then calculated using loans paid off from 2009 through 2016. Although the life of loan is generally considered to be the contractual maturity of a loan, the Bank's model includes expected prepayments when estimating credit loss, thereby reflecting effective maturity as opposed to contractual maturity. The average and median life of loan is calculated by loan pool.

The net charge-off rate (or gross charge-off rates minus recovery rates) is then forecasted over the life of loan pool for the entire portfolio to derive the future expected loss. The Bank uses the OCC's DFAST Base Case Scenario for forecasting future expected loss.

The Bank also incorporates qualitative factors in establishing the allowance for credit losses that management believes are reasonable and supportable at each reporting date. The following qualitative factors are considered in establishing the Bank's CECL Allowance:

- Economic Forecast Scenarios – In order to produce a reasonable and supportable forecast, the Bank utilizes multiple economic forecasts to determine the appropriate level of life of loan loss reserves. At least annually, individual economic forecast scenarios are analyzed and selected by management based on current and expected economic activity.
- Economic Forecast Weighting – In order to produce a reasonable and supportable forecast, the Bank utilizes multiple economic forecasts to determine the appropriate level of life of loan loss reserves. At least annually, each individual economic forecast scenario is analyzed

by management to evaluate the appropriate weighting based on current and expected economic activity. The sum of all weights will always total 100%.

- Near-term Loan Loss Stabilization – In order to produce a more stable loan loss provision, at least annually management will analyze and adjust the appropriate level of life of loan loss reserves based on current and expected changes in modeled loan loss reserves over a one-year horizon.

Portfolio segmentation is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. The Bank has designated the following portfolio segments of loans and leases by the following call report categories: nonfarm land non-owner-occupied nonresidential, nonfarm land owner-occupied nonresidential, farmland, commercial & industrial, secured multi-family, real estate – construction, agricultural production, 1-4 family residential, HELOC/revolving, 1-4 family residential junior lien, and consumer & credit cards. The method for determining the allowance for credit losses described above is used to determine the allowance for credit losses in each portfolio segment in the Bank's loan portfolio.

Loans that do not share risk characteristics with other loans in the portfolio are individually evaluated for impairment and are not included in the collective evaluation. Factors involved in determining whether a loan should be individually evaluated include, but are not limited to, the financial condition of the borrower and the value of the underlying collateral. Expected credit losses for loans evaluated individually are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate or when the Bank determines that foreclosure is probable, the expected credit loss is measured based on the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. As a practical expedient, the Bank measures the expected credit loss for a loan using the fair value of the collateral less the cost to sell. Collateral may consist of various types of real estate including residential properties, commercial properties such as retail centers, office buildings, and lodging; agriculture land; and vacant land. The Bank assesses these loans on each reporting date to determine whether repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty.

In both cases, if the fair value of the collateral is less than the amortized cost basis of the loan, the Bank will recognize an allowance or partial charge-off as the difference between the fair value of the collateral, less costs to sell, if applicable, at the reporting date and the amortized cost basis of the loan. If the fair value of the collateral exceeds the amortized cost basis of the loan, any expected recovery added to the amortized cost basis will be limited to the amount previously charged-off. Subsequent changes in the expected credit losses for loans evaluated individually are included within the provision for credit losses in the same manner in which the expected credit loss initially was recognized or as a reduction in the provision that would otherwise be reported.

Some of the Bank's loans are reported as troubled debt restructurings (TDRs). Loans are reported as TDRs when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. The allowance for credit losses on a TDR is determined using the same method as all other loans held for investment, except when the value of the concession cannot be measured using a method other than the discounted cash flow method. When the value of a concession is measured using the discounted cash flow method the allowance for credit losses is determined by discounting the expected future cash flows at the original interest rate of the loan.

The CARES Act provided guidance around the modification of loans as a result of the COVID-19 pandemic, which outlined, among other criteria, that short-term modifications made on a good faith basis to borrowers who were current as defined under the CARES Act prior to any relief, are not TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers are considered current under the CARES Act if they are less than 30 days past due on their contractual payments at the time a modification program is implemented.

Loan Origination and Commitment Fees

Loan origination fees, net of certain specifically defined direct loan origination costs, are deferred and recognized as an adjustment of the loans' interest yield using the level-yield method over the contractual term of each loan adjusted for actual loan prepayment experience. Loan commitment fees are deferred until the expiration of the commitment period unless management believes there is a remote likelihood that the underlying commitment will be exercised, in which case the fees are amortized to fee income using the straight-line method over the commitment period. If a loan commitment is exercised, the deferred commitment fee is accounted for in the same manner as a loan origination fee. Deferred commitment fees associated with expired commitments are recognized as fee income.

Accrued Interest Receivable

The Bank has elected to present accrued interest receivable within the accrued interest receivable and other asset line on the balance sheet, separate from the associated loan balances, exclude accrued interest receivable that is included in the amortized cost of financing receivables from related disclosure requirements, and continue to write off accrued interest by reversing interest income. The Bank will not measure an allowance for credit losses for accrued interest receivable due to the Bank's policy of writing off uncollectible accrued interest receivable in a timely manner.

Investment in Low Income Housing Tax Credit Funds

The Bank invested in a limited partnership that was formed to develop and operate affordable housing projects for low or moderate-income tenants. The Bank's ownership percentage is 5%. The investment is in qualified affordable housing tax credit funds and is accounted for using the proportional amortization method, where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received. Low-income housing tax credits and other tax benefits received, net of the amortization of the investment, is recognized as part of provision for income taxes. The partnership must meet the regulatory minimum requirements for affordable housing for a minimum 15- year compliance period to fully utilize the tax credits. If the partnership ceases to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest. The Bank will record an impairment charge if the value of the future tax credits and other tax benefits is less than the carrying value of the investment. The investment totaled $8,964,000 and $3,5000,000 at September 30, 2022 and December 31, 2021. The unfunded commitments for low-income housing tax credit funds totaled $4,752,000 and $2,483,000 at September 30, 2022 and December 31, 2021. The Bank did not recognize any impairment losses on these low-income housing tax credit investments during the three or nine month periods ending September 30, 2022 as the value of the future tax benefits exceeds the carrying value of the investments.

Reserve for Unfunded Commitments ("Unfunded Reserve")

The Unfunded Reserve represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit (available balance on lines of credit including construction lines of credit) and standby letters of credit. The Unfunded Reserve is recognized as a liability (within other liabilities in the balance sheets), with adjustments to the reserve recognized under the provision for credit losses on unfunded commitments in the statement of income. The Unfunded Reserve is determined by taking the maximum unfunded credit limit as of the report date and applying the expected loss rates on those draws by loan pool.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing income available to common shareholders by the weighted-average common shares outstanding plus the weighted average number of dilutive shares for the period. Holders of unvested restricted stock awards receive forfeitable dividends at the same rate as common shareholders. There were no stock options or unvested restricted stock awards that were considered dilutive in computing diluted earnings per share for the three or nine months ended September 30, 2022 or 2021.

The factors used in the earnings per common share computation follow:

	Three Months Ended		Nine Months Ended	
(in thousands except earnings per share)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Basic				
Net income	$ 3,979	$ 3,796	$ 12,415	$ 11,011
Weighted average common shares outstanding (1)	6,688	6,680	6,687	6,678
Basic earnings per common share (1)	$ 0.59	$ 0.57	$ 1.86	$ 1.65
Diluted				
Net income	$ 3,979	$ 3,796	$ 12,415	$ 11,011
Weighted average common shares outstanding for basic earnings per common share (1)	6,688	6,680	6,687	6,678
Add: Dilutive effects of assumed exercises of stock options and restricted stock awards	-	-	-	3
Average shares and dilutive potential common shares (1)	6,688	6,680	6,687	6,681
Diluted earnings per common share (1)	$ 0.59	$ 0.57	$ 1.86	$ 1.65

(1) 2021 numbers adjusted for 10% stock dividend declared; effective October 29, 2021

Revenue Recognition

The Bank records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Bank must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Bank satisfies a performance obligation.

Most of the Bank's revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as loans and investment securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gains on sales of loans, financial guarantees, derivatives, and certain credit card fees are also not in scope of the guidance. The Bank's noninterest revenue streams are largely based on transactional activity such as the gain on sale of the guaranteed portion of SBA loans. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of September 30, 2022 and December 31, 2021, the Bank did not have any significant contract balances. The Bank has evaluated the nature of its revenue streams and determined that further disaggregation of revenue into more granular categories beyond what is presented on the statements of income was not necessary. The following are descriptions of revenues within the scope of ASC 606.

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

Debit and ATM interchange fee income and expenses - Debit and ATM interchange income represent fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Accounting Standards Adopted in 2022

None

Accounting Standards Pending Adoption

In March 2022, the Financial Accounting Standards Board (FASB) issued ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. Since the issuance of ASU No. 2016-13, the Board of Directors has provided resources to monitor and assist stakeholders with the implementation of Topic 326, also known as Post-Implementation Review (PIR). The amendments in this update respond to feedback received during the PIR process, specifically as it pertains to eliminating accounting guidance for TDRs by creditors and adding vintage disclosures for gross write-offs. For entities that have adopted the amendments in Update 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition. However, the Bank is currently gathering and evaluating the information necessary to comply with the disclosure requirements of the new standard. The Bank expects to adopt this standard and include the new disclosures beginning with the first quarter of 2023.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848). The amendments in this ASU are elective and provide optional guidance for a limited period to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with the method of adoption varying based on transaction type. The Bank has no loans and one subordinated debt agreement for $6,000,000 or 0.6% of total assets that references LIBOR; this ASU is anticipated to have minimal impact on the Bank. The Bank will continue to monitor guidance for reference rate reform from the FASB and its impact on the Bank's financial condition and results of operations.

2. INVESTMENT SECURITIES – AVAILABLE-FOR-SALE

The amortized costs and estimated fair value of investment securities available-for-sale are reflected in the tables below; the Bank has no investment securities held-to-maturity:

	September 30, 2022				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Government agencies	$ 50,656	$ 1	$ (10,894)	$ -	$ 39,763
Mortgage-backed securities - residential	9,905	-	(1,656)	-	8,249
Corporate debt	22,856	-	(2,174)	-	20,682
Total investment securities available-for-sale	$ 83,417	$ 1	$ (14,724)	$ -	$ 68,694

	December 31, 2021				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Government agencies	$ 39,985	$ -	$ (962)	$ -	$ 39,023
Mortgage-backed securities - residential	10,506	173	(183)	-	10,496
Corporate debt	19,411	555	(118)	-	19,848
Total investment securities available-for-sale	$ 69,902	$ 728	$ (1,263)	$ -	$ 69,367

The activity related to recorded gross gains and losses of investment securities is reflected in the table below:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Proceeds from calls	$ 501	$ -	$ 1,162	$ 806
Gross realized gains on sales and calls	1	-	7	56

The unrealized losses on investments in asset backed securities were generally caused by changes in required yields by investors for these types of securities and changes in interest rates. All of the Bank's securities remain investment grade with the exception of one security that has a par value of $250,000. The one security below investment grade has been separately evaluated and management has determined it is not impaired and the Bank will not record an allowance for credit losses because the issuing company continues to perform financially; the Bank expects to realize the full principal and interest upon final maturity. The Bank continues to monitor all its securities for changes in credit rating or other indications of credit deterioration. Management has concluded the decline in fair value is attributable to changes in short term interest rates, market shifts of the Treasury yield curve and other variable market and economic conditions. Management further concludes impairment did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments, the portfolio consists primarily of debt securities with non-contingent contractual cash flows, and full realization of the principal balance is expected upon final maturity. The Bank has no specific plans to sell any of the impaired securities, is not anticipating it will be required to sell any impaired securities prior to full recovery and has the intent and ability to hold the securities until it receives full recovery, which could be at the final maturity or prior to maturity for investments with a make-whole call provision. For the reasons described, the Bank has determined there is no impairment on these securities, none of the individual unrealized loss as of September 30, 2022 resulted from credit loss, and the Bank has no allowance for credit losses recorded as of September 30, 2022.

Investment securities with unrealized losses are summarized and classified according to the duration of the loss period as follows:

	September 30, 2022					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agencies	$ 18,772	$ (3,892)	$ 18,490	$ (7,002)	$ 37,262	$ (10,894)
Mortgage-backed securities - residential	3,182	(351)	5,067	(1,305)	8,249	(1,656)
Corporate debt	18,424	(1,651)	2,258	(523)	20,682	(2,174)
Total available-for-sale	40,378	(5,894)	25,815	(8,830)	66,193	(14,724)
Total investment securities	$ 40,378	$ (5,894)	$ 25,815	$ (8,830)	$ 66,193	$ (14,724)

	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agencies	$ 26,608	$ (383)	$ 12,415	$ (579)	$ 39,023	$ (962)
Mortgage-backed securities - residential	6,699	(183)	-	-	6,699	(183)
Corporate debt	4,025	(69)	1,085	(49)	5,110	(118)
Total available-for-sale	37,332	(635)	13,500	(628)	50,832	(1,263)
Total investment securities	$ 37,332	$ (635)	$ 13,500	$ (628)	$ 50,832	$ (1,263)

At September 30, 2022, the Bank held fifty nine investment securities in an unrealized loss position for less than 12 months and thirteen investment securities in an unrealized loss position greater than 12 months. At December 31, 2021, the Bank held twenty two investment securities in an unrealized loss for less than 12 months and seven investment securities in an unrealized loss position greater than 12 months.

The amortized cost and estimated fair value of investment securities by contractual maturity at September 30, 2022 are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)		Amortized Cost	Fair Value
Within one year	$	510	$ 506
After one year through five years		13,529	12,756
After five years through ten years		20,985	18,463
After ten years		38,488	28,720
		73,512	60,445
Investment securities not due at a single maturity date:			
Mortgage-backed securities - residential		9,905	8,249
	$	83,417	$ 68,694

The Bank does not own securities of any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total shareholders' equity at the time of purchase.

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)		September 30, 2022		December 31, 2021
Commercial & agricultural (1)	$	135,652	$	144,969
Real estate - commercial		580,844		504,891
Real estate - construction and land		86,594		67,427
Real estate - single family		63,902		65,590
Real estate - multifamily		40,782		50,395
Consumer & lease financing		15		44
		907,789		833,316
Allowance for credit losses		(14,209)		(12,329)
	$	893,580	$	820,987

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $6,492 as of September 30, 2022 and $16,957 as of December 31, 2021.

The following is a discussion of the risks across each loan portfolio segment:

Commercial and Agricultural Loans – Commercial and agricultural credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, farmland, or other projects. The majority of these borrowers are customers doing business within the Bank's geographic locations. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial and agricultural loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrowers. The cash flows of borrowers may not occur as expected, or the collateral securing these loans may fluctuate in value. A weakened economy, and the resulting decrease in consumer or business spending, may also have an impact on the credit quality of commercial and agricultural loans.

In April 2020, the Bank began participating in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the SBA paid the Bank a fee of 1%-5% depending on the loan amount, which was netted with loan origination costs and accreted/amortized into interest income using the effective yield method over the contractual life of each loan. The recognition of fees and costs is accelerated when the SBA forgives the loan and/or the loan is paid off prior to maturity. PPP loans are fully guaranteed by the SBA and have virtually no risk of loss. The Bank expects the vast majority of the PPP loans to be fully forgiven by the SBA.

Commercial and Multifamily Real Estate Loans – Commercial and multifamily real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market.

Construction and Land Real Estate Loans – Construction and land real estate loans are extended to qualified commercial and individual customers and are underwritten and secured by the assets of the company or individual. Commercial construction credits are generally secured with personal guarantees of the business owner. Credits are underwritten to meet the general credit policy criteria for current and projected cash flow coverage and loan-to-value. Both types of credit are generally written as construction to permanent loans with terms consistent with policy and property type. Construction loans are done in California and Arizona with a majority under the SBA 7(a) or U.S. Department of Agriculture (USDA) loan guarantee programs. The majority of land real estate loans are with customers doing business within the Bank's geographic region. Repayment of construction loans is largely dependent on the ultimate success of the project and can be impacted by the inherent volatility in real estate values, delays due to weather, and labor or material shortages.

Single Family Real Estate Loans – Single family residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed up to 30 years, and in most cases, are extended to borrowers to finance their primary residence. Real estate market values at the time of origination directly affect the amount of credit extended, and in the event of default, subsequent changes in these values may impact the severity of losses. Additionally, commercial loans may be categorized as Single Family Residential if the loan is secured by a mortgage on a home. Commercial loans categorized as Single Family Residential are underwritten as described in Commercial and Agricultural Loans section above and have terms such as interest rates and maturities as a standard Commercial Loan.

Consumer and Lease Financing Loans – The bank is no longer involved in consumer lending of this type. However, the bank has a small legacy portfolio. Consumer and lease financing loans are primarily comprised of loans made directly to consumers. These loans have a specific underwriting matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship to the borrower. Consumer and lease financing lending uses risk-based pricing in the underwriting process. Consumer and lease financing loans are impacted by factors that impact consumers' ability to repay the loans, such as unemployment rates.

Changes in the allocation of allowance for credit losses by loan class for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three Months Ended September 30, 2022				
(in thousands)	Balance at June 30, 2022	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2022
Commercial & agricultural	$ 682	$ (101)	$ -	$ 4	$ 585
Real estate - commercial	5,822	865	-	-	6,687
Real estate - construction and land	5,263	(28)	-	-	5,235
Real estate - single family	652	(3)	-	-	649
Real estate - multifamily	745	16	-	-	761
Consumer, lease financing & other	288	4	-	-	292
Total	$ 13,452	$ 753	$ -	$ 4	$ 14,209

	Nine Months Ended September 30, 2022				
(in thousands)	Balance at December 31, 2021	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2022
Commercial & agricultural	$ 820	$ (239)	$ (21)	$ 25	$ 585
Real estate - commercial	5,168	1,519	-	-	6,687
Real estate - construction and land	4,585	650	-	-	5,235
Real estate - single family	690	(41)	-	-	649
Real estate - multifamily	916	(155)	-	-	761
Consumer, lease financing & other	150	142	-	-	292
Total	$ 12,329	$ 1,876	$ (21)	$ 25	$ 14,209

	Three Months Ended September 30, 2021					
(in thousands)	Balance at June 30, 2021	Impact of CECL Adoption	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2021
Commercial & agricultural	$ 658	$ -	$ 48	$ (41)	$ 12	$ 677
Real estate - commercial	5,160	-	3	-	-	5,163
Real estate - construction and land	3,727	-	209	-	-	3,936
Real estate - single family	697	-	(70)	-	-	627
Real estate - multifamily	1,240	-	(190)	-	-	1,050
Consumer & lease financing	-	-	-	-	-	-
Total	$ 11,482	$ -	$ -	$ (41)	$ 12	$ 11,453

	Nine Months Ended September 30, 2021					
(in thousands)	Balance at December 31, 2020	Impact of CECL Adoption	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2021
Commercial & agricultural	$ 989	$ 202	$ (500)	$ (41)	$ 27	$ 677
Real estate - commercial	4,942	974	(753)	-	-	5,163
Real estate - construction and land	1,292	751	1,893	-	-	3,936
Real estate - single family	404	119	104	-	-	627
Real estate - multifamily	599	204	247	-	-	1,050
Consumer & lease financing	1	-	(1)	-	-	-
Unallocated	655	-	(655)	-	-	-
Total	$ 8,882	$ 2,250	$ 335	$ (41)	$ 27	$ 11,453

The following table presents the amortized cost basis of collateral dependent loans by class of loans and by collateral type as of September 30, 2022 and December 31, 2021:

	September 30, 2022							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses
Real estate - commercial, non owner-occupied	$ -	$ 3,189	$ -	$ -	$ -	$ -	$ 3,189	$ -
Farmland	114	-	-	-	-	-	114	-
SFR	-	-	-	897	-	-	897	-
UCC Blanket	1,436	-	-	-	-	-	1,436	-
Total collateral dependent loans	**$ 1,550**	**$ 3,189**	**$ -**	**$ 897**	**$ -**	**$ -**	**$ 5,636**	**$ -**

	December 31, 2021							
	Amortized Cost by Collateral Type							
(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total	Allowance for Credit Losses
Farmland	$ 132	$ -	$ -	$ -	$ -	$ -	$ 132	$ -
SFR	-	-	-	915	-	-	915	-
UCC Blanket	380	-	-	-	-	-	380	-
Warehouse	-	1,289	-	-	-	-	1,289	-
Total collateral dependent loans	**$ 512**	**$ 1,289**	**$ -**	**$ 915**	**$ -**	**$ -**	**$ 2,716**	**$ -**

Accrued interest receivable for the total loan portfolio was $2,685,000 and $2,611,000 and net deferred loan (fees) costs were $(582,000) and $39,000 as of September 30, 2022 and December 31, 2021, respectively. The decrease in interest receivable and increase in net deferred loan fees (costs) are attributed to SBA loan forgiveness payments received on PPP loans as well as collection of interest on previous loan modifications converting back to regularly scheduled payment terms in 2021 compared to substantially reduced activity in 2022.

The following table presents the interest recognized on collateral dependent loans for the nine month periods ending September 30, 2022 and September 30, 2021:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
September 30, 2022							
Interest income recognized on collateral dependent loans during the six months ended	9	111	-	46	-	-	166
September 30, 2021							
Interest income recognized on collateral dependent loans during the six months ended	22	41	-	47	-	-	110

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of September 30, 2022 and December 31, 2021:

	September 30, 2022				December 31, 2021			
(in thousands)	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual With Allowance for Credit Losses	Nonaccrual With No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 758	$ -	$ 758	$ -	$ 114	$ -	$ 114	$ 165
Real estate - commercial	3,189	-	3,189	-	208	-	208	-
Real estate - construction and land	-	-	-	-	-	-	-	-
Real estate - single family	-	-	-	-	-	-	-	-
Real estate - multifamily	-	-	-	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-	-	-	-
Total	$ 3,947	$ -	$ 3,947	$ -	$ 322	$ -	$ 322	$ 165

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of September 30, 2022 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ 169	$ 759	$ 928	$ 134,724	$ 135,652
Real estate - commercial	-	-	-	-	580,844	580,844
Real estate - construction and land	-	-	-	-	86,594	86,594
Real estate - single family	-	-	-	-	63,902	63,902
Real estate - multifamily	-	-	-	-	40,782	40,782
Consumer & lease financing	-	-	-	-	15	15
Total	$ -	$ 169	$ 759	$ 928	$ 906,861	$ 907,789

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2021 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ 21	$ 279	$ 300	$ 144,669	$ 144,969
Real estate - commercial	-	-	208	208	504,683	504,891
Real estate - construction and land	-	-	-	-	67,427	67,427
Real estate - single family	-	-	-	-	65,590	65,590
Real estate - multifamily	-	-	-	-	50,395	50,395
Consumer & lease financing	-	-	-	-	44	44
Total	$ -	$ 21	$ 487	$ 508	$ 832,808	$ 833,316

A loan is considered past due if a scheduled payment of interest or principal that is due is unpaid for 30 days or more.

Troubled Debt Restructurings

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a TDR. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

At September 30, 2022 and December 31, 2021, loans modified in a TDR totaled $1,011,000 and $2,128,000. At September 30, 2022 and December 31, 2021, the figure represents collateral dependent loans under CECL. There are no TDRs that are also included in nonperforming loans at both September 30, 2022 and December 31, 2021.

There were no loans modified as troubled debt restructurings during the three or nine months ended September 30, 2022 and 2021.

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three or nine months ended September 30, 2022 and 2021. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $250,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

PASS - Loans not meeting any of the three criteria below that are analyzed individually as part of the above described process are considered to be pass rated loans.

SPECIAL MENTION - Loans in this category are considered "criticized" from a regulatory point of view but are not considered "classified" until the risk classification becomes substandard or worse. Loans in this category represent above average risk and potential weakness which may, if not corrected, weaken the loan and threaten repayment at some future date.

SUBSTANDARD - Loans in this category have a well defined weakness that jeopardize full repayment of the debt, although loss may not seem likely. Loss potential does not have to exist in individual loans in the Substandard classification but will be apparent in the aggregate. Typically, these loans have not met repayment plans as agreed. The primary source of repayment may have failed to materialize; repayment may be dependent on collateral liquidation or other secondary sources. Bankrupt borrowers and those with continuously past due payments are considered substandard.

DOUBTFUL - Loans in this category have all the characteristics of substandard loans with the added weakness that payment in full or liquidation in full is highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the strengthening of the loan, its classification as an estimated loss is deferred until the amount of the loss may be more accurately determined.

The risk category of loans by class of loans as of September 30, 2022 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	106,789	$ 11,941	$ 16,922	$ -	$ 135,652
Real estate - commercial	568,693	8,136	4,015	-	580,844
Real estate - construction and land	85,880	-	714	-	86,594
Real estate - single family	61,790	1,960	152	-	63,902
Real estate - multifamily	40,782	-	-	-	40,782
Consumer & lease financing	15	-	-	-	15
Total	$ 863,949	$ 22,037	$ 21,803	$ -	$ 907,789

The risk category of loans by class of loans as of December 31, 2021 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	$ 119,545	$ 21,737	$ 3,573	$ 114	$ 144,969
Real estate - commercial	482,794	20,972	1,125	-	504,891
Real estate - construction and land	66,663	-	764	-	67,427
Real estate - single family	65,433	-	157	-	65,590
Real estate - multifamily	50,395	-	-	-	50,395
Consumer & lease financing	44	-	-	-	44
Total	$ 784,874	$ 42,709	$ 5,619	$ 114	$ 833,316

The following tables present the Bank's portfolio by grade, presented by year of origination, as of September 30, 2022 and December 31, 2021. Revolving loans that are converted to term loans are treated as new originations in the table below:

	September 30, 2022						
(in thousands)	Term Loans by Year of Origination					Revolving	
	2022	2021	2020	2019	Prior	Loans	Total Loans
Commercial & agricultural							
Risk Rating							
Pass	$ 14,860	$ 18,872	$ 11,811	$ 13,701	$ 28,947	$ 18,598	$ 106,789
Special Mention	-	-	-	-	7,941	4,000	11,941
Substandard	-	-	614	6,739	8,699	870	16,922
Doubtful	-	-	-	-	-	-	-
Total Commercial & agricultural	$ 14,860	$ 18,872	$ 12,425	$ 20,440	$ 45,587	$ 23,468	$ 135,652
Real estate - commercial							
Risk Rating							
Pass	$ 147,086	$ 121,471	$ 94,561	$ 45,780	$ 151,388	$ 8,407	$ 568,693
Special Mention	-	-	8,136	-	-	-	8,136
Substandard	-	-	3,189	138	688	-	4,015
Doubtful	-	-	-	-	-	-	-
Total Real estate - commercial	$ 147,086	$ 121,471	$ 105,886	$ 45,918	$ 152,076	$ 8,407	$ 580,844
Real estate - construction and land							
Risk Rating							
Pass	$ 20,759	$ 44,365	$ 11,623	$ 3,733	$ 5,400	$ -	$ 85,880
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	714	-	714
Doubtful	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 20,759	$ 44,365	$ 11,623	$ 3,733	$ 6,114	$ -	$ 86,594
Real estate - single family							
Risk Rating							
Pass	$ 6,557	$ 7,199	$ 23,224	$ 7,925	$ 14,215	$ 2,670	$ 61,790
Special Mention	1,960	-	-	-	-	-	1,960
Substandard	-	-	-	-	152	-	152
Doubtful	-	-	-	-	-	-	-
Total Real estate - single family	$ 8,517	$ 7,199	$ 23,224	$ 7,925	$ 14,367	$ 2,670	$ 63,902
Real estate - multifamily							
Risk Rating							
Pass	$ 1,868	$ 5,517	$ 13,329	$ 3,738	$ 14,918	$ 1,412	$ 40,782
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Real estate - multifamily	$ 1,868	$ 5,517	$ 13,329	$ 3,738	$ 14,918	$ 1,412	$ 40,782
Consumer & lease financing							
Risk Rating							
Pass	$ 12	$ -	$ -	$ -	$ 3	$ -	$ 15
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Consumer & lease financing	$ 12	$ -	$ -	$ -	$ 3	$ -	$ 15

(in thousands)	December 31, 2021						
	Term Loans by Year of Origination					Revolving	
	2021	2020	2019	2018	Prior	Loans	Total Loans
Commercial & agricultural							
Risk Rating							
Pass	$ 28,076	$ 15,621	$ 21,371	$ 5,196	$ 31,409	$ 17,872	$ 119,545
Special Mention	-	570	108	8,046	8,213	4,800	21,737
Substandard	-	-	-	-	3,573	-	3,573
Doubtful	-	-	-	-	-	114	114
Total Commercial & agricultural	$ 28,076	$ 16,191	$ 21,479	$ 13,242	$ 43,195	$ 22,786	$ 144,969
Real estate - commercial							
Risk Rating							
Pass	$ 136,972	$ 96,085	$ 41,651	$ 65,509	$ 132,965	$ 9,612	$ 482,794
Special Mention	-	9,238	7,041	-	4,693	-	20,972
Substandard	-	-	166	-	909	50	1,125
Doubtful	-	-	-	-	-	-	-
Total Real estate - commercial	$ 136,972	$ 105,323	$ 48,858	$ 65,509	$ 138,567	$ 9,662	$ 504,891
Real estate - construction and land							
Risk Rating							
Pass	$ 32,372	$ 19,907	$ 4,565	$ 900	$ 8,919	$ -	$ 66,663
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	764	-	764
Doubtful	-	-	-	-	-	-	-
Total Real estate - construction and land	$ 32,372	$ 19,907	$ 4,565	$ 900	$ 9,683	$ -	$ 67,427
Real estate - single family							
Risk Rating							
Pass	$ 10,500	$ 25,560	$ 8,004	$ 3,430	$ 13,905	$ 4,034	$ 65,433
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	157	-	157
Doubtful	-	-	-	-	-	-	-
Total Real estate - single family	$ 10,500	$ 25,560	$ 8,004	$ 3,430	$ 14,062	$ 4,034	$ 65,590
Real estate - multifamily							
Risk Rating							
Pass	$ 5,584	$ 13,332	$ 10,255	$ 6,920	$ 11,693	$ 2,611	$ 50,395
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Real estate - multifamily	$ 5,584	$ 13,332	$ 10,255	$ 6,920	$ 11,693	$ 2,611	$ 50,395
Consumer & lease financing							
Risk Rating							
Pass	$ 43	$ -	$ -	$ -	$ 1	$ -	$ 44
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total Consumer & lease financing	$ 43	$ -	$ -	$ -	$ 1	$ -	$ 44

Pledged Loans

The Bank maintains two lines of credit where the line is secured by pledging qualifying loans with unpaid principal balances. The first line is held at the FHLB and secured under terms of a blanket collateral agreement; loans with unpaid principal balances of $411,999,000 at September 30, 2022 and $432,736,000 at December 31, 2021 are pledged to secure the line of credit with the FHLB. The second line is held at the FRB and secured under terms of a Borrower-in-Custody arrangement; loans with unpaid principal balances of $214,891,000 at September 30, 2022 and $162,861,000 at December 31, 2021 secure the line of credit with FRB.

Related Party Loans

The Bank has, and expects to have in the future, banking transactions in the ordinary course of its business with Directors, Executive Officers, principal shareholders, as well as their businesses, associates, and members of their immediate family. Executive Officers are eligible to participate in the Bank's Employee Loan Program, which offers preferred interest rates on primary home mortgage loans. Prior to August 1, 2020, Directors were also eligible to participate in the Bank's Employee Loan Program; after August 1, 2020, Directors are no longer eligible to participate in this program. Otherwise, all loans and commitments to lend included in such transactions were made in the ordinary course of business on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons not related to the Bank of similar creditworthiness. These transactions do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual Directors and Executive Officers must comply with the Bank's lending policies and statutory lending limits. In addition, in some cases prior approval of the Bank's Board of Directors must be obtained for such loans, as required by federal and state regulations applicable to the Bank.

Related party loans totaled $3,804,000 at September 30, 2022 and $3,873,000 at December 31, 2021. Undisbursed commitments to related parties were $500,000 at September 30, 2022 and December 31, 2021.

4. LEASES

The types of leases where the Bank is a lessee are real estate properties for four branches located in Healdsburg, Rohnert Park, Petaluma and Santa Rosa, office spaces in Santa Rosa, a lending office in Roseville and photocopier equipment. These leases have variable terms maturing prior to 2029. The Bank's leases do not include residual value guarantees or covenants. The Bank has elected to account for any non-lease components in its real estate leases as part of the associated lease component.

The calculated amount of the right-of-use ("ROU") assets and lease liabilities in the table below are calculated by discounting the minimum contractual balance due of all future payments through the end of the current term to present value. When the Bank determines exercising the renewal option for any lease agreement is reasonably certain, it will include the extended term in the calculation of the ROU asset and lease liability.

As it pertains to the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank uses its incremental borrowing rate in calculating the discounted present value. The discount rate is determined at the lease commencement date and is not changed during the life of the lease unless the lease period is modified.

The following table represents the balance sheet classification of the Bank's ROU assets and lease liabilities. The Bank elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the balance sheet.

(in thousands)		September 30, 2022	December 31, 2021
Operating Leases	**Classification**		
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 1,454	$ 1,180
Lease liabilities	Accrued Int Payable & Other Liabilities	1,493	1,207
Financing Leases			
Lease right-of-use assets	Bank Premises & Equip	$ 14	$ 25
Lease liabilities	Accrued Int Payable & Other Liabilities	14	25

The following table represents lease costs for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Lease Costs				
Operating lease cost	$ 107	$ 100	$ 310	$ 297
Financing lease cost				
Interest on lease liabilities	-	-	-	-
Amortization of right-of-use assets	2	4	10	10
Sublease income	(38)	(89)	(162)	(264)
Net lease cost	$ 71	$ 15	$ 158	$ 43

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Other Information				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 95	$ 98	$ 291	$ 194
Operating cash flows from finance leases	-	-	-	-
Financing cash flows from finance leases	2	4	10	6

	September 30, 2022
Weighted-average remaining lease term	
Operating leases	4.0 years
Financing leases	2.8 years
Weighted-average discount rate	
Operating leases	3.15%
Financing leases	2.87%

Rent expense for the three and nine months ended September 30, 2022 was $119,000 and $330,000 compared to $107,000 and $317,000 for the same periods in 2021.

Future minimum payments for finance leases and operating leases as of September 30, 2022 were as follows:

(in thousands)				
Twelve Months Ended:		**Operating Leases**		**Financing Leases**
September 30, 2023	$	447	$	7
September 30, 2024		471		3
September 30, 2025		312		3
September 30, 2026		154		2
September 30, 2027		149		-
Thereafter		76		-
Total Future Minimum Lease Payments		1,609		15
Amounts Representing Interest		(116)		(1)
Present Value of Net Future Minimum Lease Payments	$	1,493	$	14

5. BORROWINGS AND OTHER OBLIGATIONS

Federal Home Loan Bank Borrowings

The Bank adjusts its level of FHLB advances outstanding to manage balance sheet liquidity. Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The line is collateralized by $411,999,000 and $432,736,000 of loans under a blanket lien arrangement at September 30, 2022 and December 31, 2021. Based on this collateral, the Bank was eligible to borrow up to a total of $246,292,000 and $277,106,000 of which $157,400,000 and $213,414,000 was available for additional advances as of September 30, 2022 and December 31, 2021.

Advances outstanding from the FHLB were $73,700,000 at September 30, 2022 and $48,500,000 at December 31, 2021, with maturities from October 2022 through February 2025 and fixed rates from 1.28% to 1.90%.

At September 30, 2022, FHLB advances are scheduled to mature as follows:

(in thousands)	Weighted Average Interest Rate		September 30, 2022
Due on or before September 30, 2023	2.39%	$	50,700
Due on or before September 30, 2025	1.65%	$	23,000
		$	73,700

Federal Reserve Line of Credit

The Bank has a secured line of credit with the Federal Reserve Bank of San Francisco secured by certain agricultural, real estate, construction, and land loans. The line is collateralized by $214,891,000 and $162,861,000 of loans under a Borrower-in-Custody arrangement at September 30, 2022 and December 31, 2021, respectively. The Bank had borrowing capacity under this line totaling $81,829,000 and $67,456,000 at September 30, 2022 and December 31, 2021, respectively, and had no outstanding borrowings with the Federal Reserve Bank at either period end date.

Federal Funds Purchased

The Bank has an unsecured line of credit with a correspondent bank for overnight borrowings totaling $15,000,000 at September 30, 2022 and December 31, 2021. In general, the interest rate on this line approximates the federal funds target rate. The Bank had no overnight borrowing under this credit facility as of September 30, 2022 or December 31, 2021.

Subordinated Debenture

On June 28, 2019 the Bank completed a private placement of $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes are for a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes bear interest at a fixed rate of 6.0% per annum for the first half of the term and adjust to a floating rate tied to SOFR beginning July 1, 2024. Interest is payable quarterly in arrears and due on March 31, June 30, September 30, and December 31 of each year through the maturity date. The Notes are reported net of any unamortized debt issuance cost which totaled $98,000 and $109,000 at September 30, 2022 and December 31, 2021.

Other Obligations

The Bank leases certain premises and equipment under finance leases, which are included in borrowings and other obligations in the statements of income, See Note 4 Leases, for additional information.

6. COMMITMENTS AND CONTINGENCIES

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial condition or results of operations of the Bank.

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's credit policy requires sufficient collateral to be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral for the lending portfolio consists primarily of real estate, accounts receivable, inventory and other financial instruments. At September 30, 2022, loans with real estate collateral approximated $853,000,000 or 94% of the loan portfolio compared to $770,939,000 or 93% at December 31, 2021.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets.

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

Commitments to extend credit, which totaled $137,703,000 and $153,747,000 at September 30, 2022 and December 31, 2021, respectively, are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and owner-occupied or income-producing commercial properties.

Standby letters of credit, which totaled $13,576,000 at September 30, 2022 and $4,233,000 at December 31, 2021, are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at September 30, 2022 and December 31, 2021. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

7. SHAREHOLDERS' EQUITY

Regulatory Capital

At September 30, 2022, The Bank's capital levels exceeded the minimums necessary to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 capital, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

The Bank elected not to include Accumulated Other Comprehensive Income in the regulatory capital calculations.

The Bank's actual and required capital amounts and ratios consisted of the following:

(in thousands)	September 30, 2022 Amount	September 30, 2022 Ratio	December 31, 2021 Amount	December 31, 2021 Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 87,824	9.6%	$ 79,193	9.6%
Minimum requirement with capital conservation buffer	$ 63,748	7.0%	$ 58,049	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 59,194	6.5%	$ 53,903	6.5%
Minimum regulatory requirement	$ 40,981	4.5%	$ 37,317	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 87,824	9.6%	$ 79,193	9.6%
Minimum requirement with capital conservation buffer	$ 77,408	8.5%	$ 70,488	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 72,854	8.0%	$ 66,342	8.0%
Minimum regulatory requirement	$ 54,641	6.0%	$ 49,756	6.0%
Total Capital Ratio				
Summit State Bank	$ 105,152	11.6%	$ 95,481	11.5%
Minimum requirement with capital conservation buffer	$ 95,621	10.5%	$ 87,073	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 91,068	10.0%	$ 82,927	10.0%
Minimum regulatory requirement	$ 72,854	8.0%	$ 66,342	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 87,824	8.7%	$ 79,193	8.7%
Minimum requirement for "Well-Capitalized" institution	$ 50,396	5.0%	$ 45,772	5.0%
Minimum regulatory requirement	$ 40,317	4.0%	$ 36,618	4.0%

Share-Based Compensation Plans

The shareholders approved the 2013 Equity Incentive Plan ("Plan") on July 29, 2013. The Plan allows for various equity-based incentives such as stock appreciation rights (SARs), restricted stock awards (RSAs), stock grants and qualified performance-based awards. The Plan reserves a total of 187,500 shares of common stock for issuance to Bank employees and directors. The Plan requires that the award exercise price may not be less than the fair value of the stock at the date it is granted. Awards have vesting periods of 5 years, unless otherwise approved by the Board of Directors. Expiration dates are determined by the Board of Directors but may not be later than ten years from the date of grant. No awards were granted during the three months ended September 30, 2022 and September 30, 2021. There were 57,660 and 0 RSAs granted during the nine months ended September 30, 2022 and September 30, 2021, respectively. As of September 30, 2022, there were 50,160 RSAs outstanding (3,200 exercisable) and 0 RSAs outstanding and exercisable at September 30, 2021. 137,340 shares remain available for future grants under the Plan at September 30, 2022.

Until 2020, the Bank granted Stock Appreciation Rights ("SARs") to executive officers and directors. SARs provide long-term incentives to the employees and directors by providing a cash payment for the difference between the market price of the Bank's common stock at time of exercise and the price at the grant date. SARs expire ten years from the date of grant, and typically have an annual vesting of 20% per year, unless otherwise approved by the Board of Directors. Vested SARs are settled in the form of cash payments when the Bank receives written notification from an employee to exercise a SAR payment, the tenth anniversary of the effective date, or at termination of employment. Obligations associated with SARs are accounted for as liabilities and are included in accrued interest payable and other liabilities on the balance sheet. The Bank's SARs are valued based on the number of vested shares times the fair value of the stock price as of the report date. The Bank discontinued issuing SARs beginning 2021 and instead has been issuing RSAs; because of this there were no SAR grants for the three or nine months ended September 30, 2022 or 2021.

At September 30, 2022 and December 31, 2021, the total SAR liability was $819,000 and $756,000, respectively. The total compensation expense accrued for the three and nine months ending September 30, 2022 related to SARs was $71,000 and $63,000, respectively. For the three and nine months ended September 30, 2021, total compensation expense accrued was $534,000 and $662,000, respectively. The decrease in the SAR liability September 30, 2022 is due to the Bank's stock price decreasing to $14.51 at September 30, 2022 compared to $15.50 at December 31, 2022. The Bank's SAR expense accrual decreased to $819,000 at September 30, 2022 compared to $958,000 at September 30, 2021; the decrease was primarily due to the Bank's stock price decreasing from one year ago and was partially offset by 67,833 SARs vesting by September 30, 2022.

As of September 30, 2022 and December 31, 2021, there was $380,000 and $404,000, respectively, of total unrecognized compensation costs related to non-vested stock options and SARs granted.

There were SAR agreements based on 302,500 common shares as of September 30, 2022 and December 31, 2021. Of the SAR agreements, there were 214,500 vested and 88,000 unvested as of September 30, 2022 and 209,000 vested and 93,500 unvested as of December 31, 2021.

Stock Appreciation Rights

September 30, 2022
(In thousands except per share data)

Outstanding Rights (1)				Exercise Price (1)	Share Price Fair Value (1)		Vested Expense Three Months Ended	
Vested	Unvested	Total	Grant Date	at Grant	June 30, 2022	September 30, 2022	September 30, 2022	Cumulative
27,500	-	27,500	December 2016	$ 10.545	$ 4.929	$ 4.503	$ (12)	$ 124
17,600	4,400	22,000	December 2017	$ 11.364	$ 3.893	$ 3.980	$ 2	$ 71
66,000	-	66,000	August 2018	$ 14.273	$ 1.541	$ 2.579	$ 69	$ 171
19,800	13,200	33,000	December 2018	$ 10.527	$ 4.714	$ 4.557	$ (3)	$ 90
40,700	-	40,700	October 2019	$ 10.718	$ 4.526	$ 4.534	$ -	$ 184
17,600	26,400	44,000	December 2019	$ 11.627	$ 3.620	$ 4.039	$ 7	$ 71
3,300	-	3,300	January 2020	$ 11.786	$ 3.461	$ 3.966	$ 2	$ 13
13,200	8,800	22,000	February 2020	$ 11.273	$ 3.973	$ 4.262	$ 4	$ 56
8,800	35,200	44,000	December 2020	$ 11.018	$ 4.230	$ 4.487	$ 2	$ 39
214,500	88,000	302,500					$ 71	$ 819

Outstanding Rights (1)				Exercise Price (1)	Share Price Fair Value (1)		Vested Expense Nine Months Ended	
Vested	Unvested	Total	Grant Date	at Grant	December 31, 2021	September 30, 2022	September 30, 2022	Cumulative
27,500	-	27,500	December 2016	$ 10.545	$ 4.960	$ 4.503	$ (13)	$ 124
17,600	4,400	22,000	December 2017	$ 11.364	$ 4.137	$ 3.980	$ (3)	$ 71
66,000	-	66,000	August 2018	$ 14.273	$ 1.522	$ 2.579	$ 70	$ 171
19,800	13,200	33,000	December 2018	$ 10.527	$ 4.976	$ 4.557	$ (8)	$ 90
40,700	-	40,700	October 2019	$ 10.718	$ 4.786	$ 4.534	$ (10)	$ 184
17,600	26,400	44,000	December 2019	$ 11.627	$ 3.879	$ 4.039	$ 3	$ 71
3,300	-	3,300	January 2020	$ 11.786	$ 3.720	$ 3.966	$ 5	$ 13
13,200	8,800	22,000	February 2020	$ 11.273	$ 4.232	$ 4.262	$ 19	$ 56
8,800	35,200	44,000	December 2020	$ 11.018	$ 4.489	$ 4.487	$ -	$ 39
214,500	88,000	302,500					$ 63	$ 819

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

September 30, 2021
(In thousands except per share data)

Outstanding Rights				Exercise Price (1)	Share Price Fair Value (1)		Vested Expense Three Months Ended	
Vested	Unvested	Total	Grant Date	at Grant	June 30, 2021	September 30, 2021	September 30, 2021	Cumulative
22,000	5,500	27,500	December 2016	$ 10.545	$ 3.598	$ 7.465	$ 85	$ 164
13,200	8,800	22,000	December 2017	$ 11.364	$ 2.900	$ 6.655	$ 50	$ 88
66,000	-	66,000	August 2018	$ 14.273	$ 1.353	$ 4.215	$ 189	$ 278
13,200	19,800	33,000	December 2018	$ 10.527	$ 3.660	$ 7.483	$ 50	$ 99
27,134	13,566	40,700	October 2019	$ 10.718	$ 3.741	$ 7.298	$ 97	$ 198
8,800	35,200	44,000	December 2019	$ 11.627	$ 3.298	$ 6.495	$ 28	$ 57
2,200	1,100	3,300	January 2020	$ 11.786	$ 3.250	$ 6.376	$ 7	$ 14
8,800	13,200	22,000	February 2020	$ 11.273	$ 3.649	$ 6.840	$ 28	$ 60
-	44,000	44,000	December 2020	$ 11.018	$ 4.524	$ 7.484	$ -	$ -
161,334	141,166	302,500					$ 534	$ 958

Outstanding Rights				Exercise Price (1)	Share Price Fair Value (1)		Vested Expense Nine Months Ended	
Vested	Unvested	Total	Grant Date	at Grant	December 31, 2020	September 30, 2021	September 30, 2021	Cumulative
22,000	5,500	27,500	December 2016	$ 10.545	$ 14.100	$ 6.655	$ 144	$ 164
13,200	8,800	22,000	December 2017	$ 11.364	$ 14.091	$ 4.215	$ 73	$ 88
66,000	-	66,000	August 2018	$ 14.273	$ 14.355	$ 7.483	$ 193	$ 278
13,200	19,800	33,000	December 2018	$ 10.527	$ 14.091	$ 7.483	$ 76	$ 99
27,134	13,566	40,700	October 2019	$ 10.718	$ 14.091	$ 6.495	$ 105	$ 198
8,800	35,200	44,000	December 2019	$ 11.627	$ 14.100	$ 6.495	$ 30	$ 57
2,200	1,100	3,300	January 2020	$ 11.786	$ 14.100	$ 6.840	$ 9	$ 14
8,800	13,200	22,000	February 2020	$ 11.273	$ 14.100	$ 6.840	$ 37	$ 60
-	44,000	44,000	December 2020	$ 11.018	$ 14.100	$ -	$ (6)	$ -
161,334	141,166	302,500					$ 661	$ 958

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

Beginning 2022 the Board started issuing RSAs in lieu of SARs as long-term equity incentives to key employees and directors. All vested and unvested RSAs are included in the common share count. RSAs vest in five equal installments on each of the first five anniversaries of the grant date. Holders are entitled to dividends on the same per-share ratio as holders of common stock, dividends for unvested RSAs will accrue at grant and be paid out at the time of vesting. Unvested RSAs and the associated accrued but unpaid dividends are forfeited if the grantee's employment with the Bank is terminated prior to the vesting of the RSAs.

On March 28, 2022, the Board of Directors awarded 46,960 RSAs to selected groups of employees. These RSAs have a grant date of April 1, 2022, and grant price of $16.90, which equals the closing trading price on the grant date. For the three and nine month periods ending September 30, 2022, the total expense related to non-vested employee RSAs was $40,000 and $80,000, respectively.

On April 25, 2022, the Board of Directors awarded a total of 3,200 RSAs immediately vesting to eligible members of the Board of Directors with a grant date of May 2, 2022, and grant price of $16.20, which equals the closing trading price on the grant date. For both the three and nine month periods ending September 30, 2022, the total expense related to non-vested employee RSAs was $52,000.

As of September 30, 2022, there was $714,000 of total unrecognized compensation costs related to non-vested RSAs granted.

All RSAs are released in the form of stock upon vesting. The Bank will recognize an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, generally when vested or settled.

The following table presents unvested restricted stock awards activity for the periods indicated:

	Number of Shares	Weighted-Average Price per Share
Outstanding Balance, December 31, 2021	-	$ -
Granted	50,160	$ 16.86
Vested	(3,200)	$ 16.20
Forfeited	-	$ -
Outstanding Balance, September 30, 2022	46,960	$ 16.90

8. OTHER EXPENSES

Other expenses consisted of the following:

	Three Months Ended		Nine Months Ended	
(in thouands)	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Information technology	$ 543	$ 409	$ 1,535	$ 1,380
Professional fees	180	193	646	547
Nasdaq listing and regulatory license expense	53	50	161	134
Marketing and donations	303	283	973	728
Deposit and other insurance premiums	124	156	463	447
Other expenses	476	739	1,385	1,468
	$ 1,679	$ 1,830	$ 5,163	$ 4,704

9. FAIR VALUE

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by a third-party vendor who uses matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). Management periodically reviews the pricing information received from third-party pricing services and tests those prices against other sources to validate the reported fair values.

The fair value of loans that are collateral dependent are generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

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

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's balance sheet at September 30, 2022 and December 31, 2021:

	September 30, 2022			December 31, 2021		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 42,818	$ 42,818	Level 1	$ 40,699	$ 40,699	Level 1
Investment securities - available-for-sale	68,694	68,694	Level 2	69,367	69,367	Level 2
Loans, net of allowance	893,580	847,426	Level 3	820,987	830,430	Level 3
Investment in Federal Home Loan Bank stock	4,737	4,737	Level 2	4,320	4,320	Level 2
Accrued interest receivable	3,241	3,241	Level 1	2,787	2,787	Level 1
Financial liabilities:						
Deposits	$868,912	$ 864,235	Level 2	$ 811,600	$811,535	Level 2
Federal Home Loan Bank advances	73,700	72,177	Level 2	48,500	49,200	Level 2
Junior subordinated debt	5,902	4,297	Level 3	5,891	4,286	Level 3
Accrued interest payable	202	202	Level 1	72	72	Level 1

Assets and Liabilities Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements (In thousands)		
	September 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 39,763	$ -	$ 39,763	$ -
Mortgage-backed securities - residential	8,249	-	8,249	-
Corporate debt	20,682	-	20,682	-
Total securities available-for-sale	$ 68,694	$ -	$ 68,694	$ -

		Fair Value Measurements (In thousands)		
	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 39,023	$ -	$ 39,023	$ -
Mortgage-backed securities - residential	10,496	-	10,496	-
Corporate debt	19,848	-	19,848	-
Total securities available-for-sale	$ 69,367	$ -	$ 69,367	$ -

No liabilities were measured at fair value on a recurring basis at September 30, 2022 or December 31, 2021.

There were no transfers between Level 1 and Level 2 or Level 3 during the three or nine months ended September 30, 2022 or 2021.

Assets and Liabilities Measured on a Non-Recurring Basis

There were no assets or liabilities measured at fair value on a non-recurring basis at September 30, 2022 and December 31, 2021.

10. SUBSEQUENT EVENTS

Dividend

On October 25, 2022, the Board of Directors declared a $0.12 per common share cash dividend to shareholders of record at the close of business on November 10, 2022, to be paid on November 17, 2022.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information about the financial condition of the Bank at September 30, 2022 and December 31, 2021, and results of operations for the three and nine months ended September 30, 2022 and 2021. The following analysis should be read in conjunction with the financial statements of the Bank and the notes thereto appearing elsewhere in the report, which were prepared in accordance with U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three and nine months ended September 30, 2022 and 2021 are unaudited. In the opinion of management of the Bank, the interim financial information presented reflects all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair representation of the results of such periods.

All references to yields, cost of liabilities and net interest margin are annualized for the periods discussed.

Forward Looking Statements. This report includes forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

These forward-looking statements may relate to, among other things, expectations regarding the Bank's disclosure controls and procedures and the remediation plans and efforts with respect to such controls and procedures; the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience and perceived opportunities in the market. Factors that may cause actual results to vary from forward-looking statements include, but are not limited to, management's ability to identify and successfully remediate any deficiencies in the Bank's disclosure controls and procedures, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the Bank's business, legislative and regulatory changes such as the Coronavirus Aid, Relief and Economic Security Act of 2020, government monetary and fiscal policies, natural disasters such as wildfires and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics such as COVID-19 and the economic impact caused by the pandemic and by government responses thereto, real estate valuations, competition in the financial services industry, demographic changes, technological factors including external fraud and cybersecurity threats, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this report.

All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by such forward-looking statements. Risks and uncertainties include, but are not limited to:

- the adverse impact of a pandemic and governmental responses to the pandemic on the Bank and its customers, employees and third-party service providers;
- the severity or duration of a pandemic and when normal economic and operational conditions will return;
- lower revenues than expected;
- credit quality deterioration, which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital;
- changes in the interest rates and inflation;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;
- potential weakness of real estate collateral values;
- the economic and regulatory effects of terrorism, events of war and civil unrest;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," in our Annual Report on Form 10-K for the year ended December 31, 2021 on file with the Federal Deposit Insurance Corporation ("FDIC") and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q, and 8-K.

Restatement of Financial Statements. In November 2022, the Bank determined that the Statements of Cash Flows in its financial statements for the year ended December 31, 2021 and the quarterly periods ended March 31, 2022 and June 30 2022 misclassified certain loans sales as operating activities rather than investment activities. Additional information regarding the correction of the misclassification is included in Note 1 to the financial statements filed with this report.

While misclassified, the amount of reported loans sales was not affected for any period and remains unchanged. Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. The misclassification had no effect on the Statements of Income, Statements of Comprehensive Income, Balance Sheets, or Statements of Changes in Shareholders Equity's included in the Affected Financial Statements. There was no effect on loans sold, total loans, the allowance for credit losses, total assets, total capital, regulatory capital ratios, net interest income, net interest margin, net income to shareholders, basic or diluted earnings per share, return on average assets, net income, return on average equity, the efficiency ratio, asset quality ratios or any other key performance metrics.

Government and Regulatory Oversight. The Bank is subject to regulatory oversight by the Department of Financial Protection & Innovation (DFPI) of the State of California and the Federal Deposit Insurance Corporation (FDIC). These regulatory bodies periodically perform financial examinations of the Bank. There is a potential that an examination may derive different estimates than those reached by management and could require material adjustments or restatements.

Critical Accounting Policies. The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, consideration of goodwill impairment, consideration of potential impairment of investment securities and determination of potential impairment of affordable housing tax credit investment.

Allowance for Credit Losses. The Bank's process for determining the adequacy of the allowance for credit losses is set forth in a formal credit policy. Loans with similar risk characteristics are evaluated on a collective pool basis and the allowance for credit losses is calculated using a life of loan estimate based on actual historical losses adjusted for economic forecasts and current conditions. The allowance for credit losses was $14,209,000 at September 30, 2022 compared to $12,329,000 at December 31, 2021.

The Bank maintains the allowance for credit losses at a level that is estimated to be sufficient to absorb expected credit losses associated with the Bank's loan portfolio. Additions to the allowance for credit losses are established through a provision for credit losses on its statements of income. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge-off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged-off in total. Collateral-dependent loans are individually evaluated for impairment to determine the ultimate loss potential (or the collateral's fair value less cost to sell) to the Bank subsequent to the liquidation of collateral. In those cases where management believes the Bank is inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, enable the Bank to assess such credit risk factors prior to granting new loans, evaluate the sufficiency of the allowance for credit losses and maintain the allowance for credit losses at an appropriate level. The Bank conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examine and formally approve the adequacy of the allowance. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio. These factors include, among others, changes in the size and composition of the loan portfolio, changes in lending personnel, policies or procedures, differences in value of collateral, concentrations of credit, level of delinquent and nonaccrual loans, migration analysis of historical loss experience and current recoveries from 2009 through 2016, and current economic conditions, including the COVID-19 pandemic.

A significant portion of the allowance for credit losses is based on qualitative factors that are adjusted due to volatility and uncertainty in the Bank's loan portfolio and the market that management believes is reasonable and supportable. These qualitative factors include the economic forecast scenarios, economic forecast weighting, and near-term loan loss stabilization.

Results of Operations

Three and nine months ended September 30, 2022 and September 30, 2021

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest earning assets and interest-bearing liabilities. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds. The Bank also generates non-interest income, including transactional fees, service charges, office lease income and gains and losses on loans and investment securities. Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for credit losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, natural disasters such as wildfires and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics such as COVID-19, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

From the onset of the pandemic, preventing the spread of COVID and protecting the health and safety of our employees, customers, and the communities we serve has been one of the Bank's highest priorities. The Bank has implemented sanitation, social distancing, and safety procedures and employees receive regular communication and training regarding these procedures. Many employees work from home and the Bank relies on phone, email, and video conferencing as the primary form of communication. The Bank has been complying with County, State and Federal requirements, including CDC guidance, as it pertains to all "stay at home" orders, travel advisories, social distancing, wearing masks, frequent hand sanitizing, regular cleaning of workspaces and common areas, and a daily prework health questionnaire.

In 2021 and 2022 the Bank been provided payment relief to borrowers with hardship requests. The CARES Act provided guidance around the modification of loans as a result of the COVID-19 pandemic, which outlined that short-term modifications made on a good faith basis to borrowers who were current (less than 30 days past due at time of modification) are not TDRs. Since the onset of the COVID pandemic, the Bank processed credit relief requests for 148 loans totaling $206,649,000. As of September 30, 2022, all deferred loans are now current and customers are paying on those loans as agreed, in accordance with the original loan terms.

The Bank also participated in the Small Business Administration's ("SBA's") Paycheck Protection Program ("PPP") under the CARES Act. PPP loans have up to five-year terms and earn interest at 1%. In addition, the Bank receives a fee of 1%-5% from the SBA based on the loan amount, which is amortized into interest income over the life of the loan. These loans are fully guaranteed by the SBA and may be forgiven by the SBA if they meet certain requirements, in accordance with the terms of the program. The Bank participated in both PPP Round 1 and PPP Round 2 and funded over $134,000,000 of PPP loans to its customers (approximately $97,000,000 of PPP Round 1 loans in 2020 and $37,000,000 of PPP Round 2 loans in 2021).

On October 8, 2020, the SBA released a streamlined forgiveness application for PPP loans totaling $50,000 or less. Through September 30, 2022, the Bank received $125,127,000 in principal SBA forgiveness payments for PPP Round 1 and PPP Round 2 loans.

Net Income

A summary of the net income and annualized ratios are as follows:

(Dollars in thousands)	Three Months Ended			Nine Months Ended		
	September 30, 2022	September 30, 2021	Change	September 30, 2022	September 30, 2021	Change
Net income	$ 3,979	$ 3,796	$ 183	$ 12,415	$ 11,011	$ 1,404
Earnings per diluted share (1)	$ 0.59	$ 0.57	$ 0.02	$ 1.86	$ 1.65	$ 0.21
Annualized return on average assets	1.56%	1.68%	(0.12)%	1.69%	1.66%	0.03%
Annualized return on average common shareholders' equity	18.12%	18.54%	(0.42)%	19.34%	18.85%	0.49%

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

Net Interest Income and Net Interest Margin

Net interest income increased $1,407,000 or 15% for the three months ended September 30, 2022 compared to September 30, 2021 and increased $3,426,000 or 12% for the nine months ended September 30, 2022 compared to September 30, 2021. The annualized net interest margin was 4.42% for the three months ended September 30, 2022, compared to 4.31% for the same period of 2021. The annualized net interest margin was 4.35% for the nine months ended September 30, 2022, compared to 4.26% for the same period of 2021. The increase in net interest income for the three and nine-month periods are primarily attributable to an increase in the loan portfolio volume due to organic loan growth and increased returns on investments and deposits with banks. The Bank is also experiencing growth in its net interest margin from loans repricing up at a faster rate than non-maturing deposits and maturing CD's rates are increasing.

Average earning assets increased 12% to $986,780,000 and 10% to $957,280,000 for the three and nine months ended September 30, 2022, respectively when compared to the same periods in 2021. For the three months ended September 30, 2022, the annualized yield on average earning assets was 5.04% and the annualized cost of average interest-bearing liabilities was 0.92%, as compared to the annualized yield on average earning assets of 4.77% and annualized cost of interest-bearing liabilities of 0.69% for the same period of 2021. For the nine months ended September 30, 2022, the annualized yield on average earning assets was 4.86% and the annualized cost of average interest-bearing liabilities was 0.75%, as compared to the annualized yield on average earning assets of 4.78% and annualized cost of interest-bearing liabilities of 0.76% for the same period of 2021.

The annualized rate on loans increased to 5.31% for the three months ended September 30, 2022 when compared to 5.12% for the same period in 2021. The increase is primarily attributable to the increase in rate indices and the direct impact this has on the Bank's new loans and adjustable rate loans. The annualized rate on loans increased to 5.19% for the nine months ended September 30, 2022 when compared to 5.17% for the same period in 2021. The Bank recorded $443,000 in PPP loan interest and forgiveness in the first nine months of 2022 compared to $2,304,000 in the first nine months of 2021.

Interest income increased to $12,541,000 or 18% for the three months ended September 30, 2022 compared to September 30, 2021. The increase is attributable to a $1,674,000 increase in core loan interest yield primarily driven by increased volume, $143,000 increase in interest on deposits with banks due to increased yields, and $125,000 increase in investment interest due to increased yields.

Interest income increased to $34,767,000 or 12% for the nine months ended September 30, 2022 compared to September 30, 2021. The increase is attributable to a $3,273,000 increase in core loan interest yield solely driven by increased volume, $202,000 increase in interest on deposits with banks due to increased yields, and $173,000 increase in investment interest due to increased yields.

Interest expense for the three months ended September 30, 2022, was $1,549,000, an increase of $533,000 from $1,016,000 for the three months ended September 30, 2021. Interest expense for the nine months ended September 30, 2022, was $3,590,000, an increase of $249,000 from $3,341,000 for the nine months ended September 30, 2021. Interest expense on deposits for the three and nine months ended September 30, 2022 was $1,100,000 and $2,560,000, respectively. Interest expense on deposits for the three and nine months ended September 30, 2021 was $720,000 and $2,471,000 respectively. The average cost of deposits, including the impact of noninterest bearing deposits, for the three months ended September 30, 2022, was 0.52% compared to 0.39% for the three months ended September 30, 2021. The average cost of deposits, including the impact of noninterest bearing deposits, for the nine months ended September 30, 2022, was 0.41% compared to 0.44% for the nine months ended September 30, 2021. The increase in the cost of funds for the three months ended September 30, 2022 was the result of increasing rates in response to federal rate increases and competition increasing rates. The decrease in the cost of funds for the nine months ended was the result of the increase in average noninterest bearing deposits, and a decrease in money market rates.

The following table presents condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

(Dollars in thousands)	Three Months Ended September 30, 2022 Average Balance	Interest Income/ Expense	Average Rate (4)	Three Months Ended September 30, 2021 Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest-bearing deposits with banks	$ 26,849	$ 154	2.28%	$ 24,302	$ 11	0.18%
Taxable investment securities	71,317	485	2.70%	66,006	360	2.16%
Dividends on FHLB Stock	4,737	69	5.78%	4,320	71	6.52%
Loans, net of unearned income (1)	883,877	11,833	5.31%	786,816	10,159	5.12%
Total earning assets/interest income	986,780	12,541	5.04%	881,444	10,601	4.77%
Non-earning assets	41,797			28,721		
Allowance for credit losses	(13,686)			(11,485)		
Total assets	$ 1,014,891			$ 898,680		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 138,360	$ 136	0.39%	$ 117,601	$ 46	0.16%
Savings and money market	221,051	362	0.65%	203,438	290	0.57%
Time deposits	225,893	602	1.06%	196,370	384	0.78%
FHLB advances	75,627	355	1.86%	60,876	202	1.32%
Subordinated debt	5,900	94	6.32%	5,885	94	6.34%
Total interest-bearing liabilities/interest exp	666,831	1,549	0.92%	584,170	1,016	0.69%
Non interest-bearing deposits	250,087			228,623		
Other liabilities	10,831			4,653		
Total liabilities	927,749			817,446		
Shareholders' equity	87,142			81,234		
Total liabilities and shareholders' equity	$ 1,014,891			$ 898,680		
Net interest income and margin (2)		$ 10,992	4.42%		$ 9,585	4.31%
Net interest spread (3)			4.12%			4.08%

(1) Average balances on loans outstanding include non-performing loans. The net amortization of deferred fees on loans included in interest income was $180,000 and $515,000 for the three months ended September 30, 2022 and 2021, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest-bearing liabilities.

(4) Annualized.

(Dollars in thousands)	Nine Months Ended September 30, 2022 Average Balance	Interest Income/ Expense	Average Rate (4)	Nine Months Ended September 30, 2021 Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest-bearing deposits with banks	$ 32,010	$ 227	0.95%	$ 29,829	$ 25	0.11%
Taxable investment securities	69,138	1,312	2.54%	67,640	1,139	2.25%
Dividends on FHLB stock	4,572	203	5.94%	3,977	176	5.92%
Loans, net of unearned income (1)	851,560	33,025	5.19%	768,842	29,752	5.17%
Total earning assets/interest income	957,280	34,767	4.86%	870,288	31,092	4.78%
Non-earning assets	39,177			27,955		
Allowance for credit losses	(13,114)			(11,449)		
Total assets	$ 983,343			$ 886,794		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 146,566	$ 311	0.28%	$ 113,350	$ 139	0.16%
Savings and money market	226,996	967	0.57%	204,084	944	0.62%
Time deposits	202,844	1,282	0.84%	207,850	1,388	0.89%
FHLB advances	58,472	749	1.71%	54,832	589	1.44%
Subordinated debt	5,896	281	6.37%	5,881	281	6.39%
Total interest-bearing liabilities/interest exp	640,774	3,590	0.75%	585,997	3,341	0.76%
Non interest-bearing deposits	246,691			218,524		
Other liabilities	10,054			4,164		
Total liabilities	897,519			808,685		
Shareholders' equity	85,824			78,109		
Total liabilities and shareholders' equity	$ 983,343			$ 886,794		
Net interest income and margin (2)		$ 31,177	4.35%		$ 27,751	4.26%
Net interest spread (3)			4.11%			4.02%

(1) Average balances on loans outstanding include non-perfomring loans. The net amortization of deferred fees on loans included in interest income was $667,000 and $1,905,000 for the nine months ended September 30, 2022 and 2021, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest-bearing liabilities.

(4) Annualized.

The following tables show the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount of the change of each.

Volume and Yield/Rate Variances

Comparison of the Three Months Ended
September 30, 2022 to September 30, 2021

	Change Due to		
(Dollars in thousands)	Net	Volume	Yield/Rate
Interest income:			
Interest-bearing deposits with banks	$ 143	$ 1	$ 142
Taxable investment securities	125	30	95
Dividends on FHLB stock	(2)	6	(8)
Loans, net	1,674	1,288	386
Total interest income	1,940	1,325	615
Interest expense:			
Interest-bearing demand deposits	$ 90	$ 9	$ 81
Savings and money market	72	26	46
Time deposits	218	64	154
FHLB advances	153	56	97
Subordinated Debt	-	1	(1)
Total interest expense	533	156	377
Increase in net interest income	$ 1,407	$ 1,169	$ 238

Volume and Yield/Rate Variances

Comparison of the Nine Months Ended
September 30, 2022 to September 30, 2021

	Change Due to		
(Dollars in thousands)	Net	Volume	Yield/Rate
Interest income:			
Interest-bearing deposits with banks	$ 202	$ 2	$ 200
Taxable investment securities	173	26	147
Dividends on FHLB stock	27	26	1
Loans, net	3,273	3,207	66
Total interest income	3,675	3,261	414
Interest expense:			
Interest-bearing demand deposits	$ 172	$ 49	$ 123
Savings and money market	23	102	(79)
Time deposits	(106)	(34)	(72)
FHLB advances	160	41	119
Subordinated Debt	-	1	(1)
Total interest expense	249	159	90
Increase (decrease) in net interest income	$ 3,426	$ 3,102	$ 324

Provision for Credit Losses

Adjustments to the allowance are made through a charge or credit against income referred to as the provision for credit losses. The Bank maintains the allowance for credit losses to absorb expected credit losses associated with the Bank's loan portfolio. Loan write-offs are charged against the allowance for credit losses and recoveries are credited to the allowance; the provision is not directly impacted in either case. The allowance is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses resulting from life of loan estimates of losses which are adjusted for economic forecasts and current conditions.

There was $753,000 provision for credit losses for the three months ended September 30, 2022 and $1,876,000 for the nine months ended September 30, 2022 compared to no provision for credit losses for the three months ended September 30, 2021 and $335,000 for the nine months ended September 30, 2021. Most of the increase in the allowance for credit loss was due to adjusting the Bank's qualitative factors in response to recent economic changes, primarily due to negative trends in the House Price Index and the CPI inflation rate. There were $3,947,000 in nonperforming loans at September 30, 2022 compared to $414,000 of nonperforming loans at September 30, 2021. There were gross charge-offs of $21,000 for the nine months ended September 30, 2022 and $41,000 for the same periods in 2021. There were gross recoveries of $25,000 during the nine months ended September 30, 2022 compared to $27,000 for the same period in 2021. See Balance Sheet Activity – Nonperforming Assets and Allowance for Credit Losses for additional discussion.

Future provisions for credit losses are dependent on factors such as asset quality trends, loan portfolio growth and the general condition of the economy, such as the potential for a recession or post-pandemic economic impacts. The Bank expects more variability in its quarterly provision for credit losses going forward due to the CECL model's sensitivity to changes in the economic forecast.

Non-interest Income

The following are the sources of non-interest income for the periods indicated:

	Three Months Ended			Nine Months Ended		
(in thousands)	September 30, 2022	September 30, 2021	Change	September 30, 2022	September 30, 2021	Change
Service charges on deposit accounts	$ 219	$ 227	$ (8)	$ 640	$ 638	$ 2
Rental income	38	89	(51)	162	264	(102)
Net gain on loan sales	578	951	(373)	4,077	2,459	1,618
Net gain on securities	1	-	1	7	56	(49)
Other income	219	92	127	477	234	243
Total non-interest income	$ 1,055	$ 1,359	$ (304)	$ 5,363	$ 3,651	$ 1,712

The decrease in non-interest income during the three months ended September 30, 2022 compared to 2021 was primarily due to fewer loan sales and a decrease in rental income. The increase during the nine months ended September 30, 2022 compared to 2021 was primarily due to higher loan sale activity on SBA guaranteed loans in 2022.

Non-interest Expense

The following are the sources of non-interest expense for the periods indicated:

(in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Change	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	Change
Salaries and employee benefits	$ 3,449	$ 3,326	$ 123	$ 10,724	$ 9,496	$1,228
Occupancy and equipment	405	394	11	1,230	1,227	3
Information technology	543	409	134	1,535	1,380	155
Director fees and expenses	242	404	(162)	620	656	(36)
Marketing and donations	303	283	20	973	728	245
Professional fees	234	243	(9)	807	681	126
Other expenses	357	491	(134)	1,228	1,259	(31)
Total non-interest expense	$ 5,533	$ 5,550	$ (17)	$ 17,117	$ 15,427	$ 1,690

Non-interest operating expenses were relatively consistent between the three month periods of 2022 and 2021. Non-interest expense increased $1,690,000 between the nine month periods of 2022 and 2021, respectively. The increase was primarily due to an increase in employee incentive pay and recording employee SAR and RSA expenses; the slight decrease in director fees is related to the reversal of the SAR expense in the third quarter due to a decrease in the Bank's stock price.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated annual tax rates during the financial period covered. The provision for income taxes for Federal and State corporate income tax and effective rates for the three and nine months ended September 30, 2022 was $1,765,000 (30.7%) and $5,129,000 (29.2%) compared to $1,598,000 (29.6%) and $4,629,000 (29.6%) for the same period in 2021. The decrease in the effective tax rate for 2022 was due to a onetime credit of $86,000 taken for a carryover of prior year taxes due to a change in estimate.

Balance Sheet Activity

At September 30, 2022 and December 31, 2021

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Available-for-sale (AFS) investment securities carried at fair value totaled $68,694,000 and amortized cost of $83,417,000 at September 30, 2022 and comprised 6.6% of total assets. At December 31, 2021, investment securities comprised 7.2% of total assets with AFS investments at a fair value of $69,367,000 and amortized cost of $69,902,000. Changes in the fair value of AFS securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income (loss)," net of tax, and carried as accumulated other comprehensive income or loss, net of tax, within shareholders' equity until realized, unless any declines in value below amortized cost are the result of impairment. The Bank's accumulated other comprehensive loss has increased to ($10,365,000) at September 30, 2022, from ($376,000) at December 31, 2021. The significant increase in the Bank's unrealized losses on its AFS investments has been caused by the drastic increase in interest rates in 2022. The Bank has no specific plan to sell any of its securities, does not anticipate it will be required to sell any securities prior to full recovery, and has the intent and ability to hold all securities until full recovery. Because of this, the unrealized losses are anticipated to remain in the equity section of the balance sheet and not impact the income statement.

There were $15,349,000 in bonds purchased $1,738,000 in bonds called or matured and no bonds sold during the nine months ended September 30, 2022. For the nine months ended September 30, 2021, there were $24,185,000 in bonds purchased, $21,909,000 in bonds were called or matured and no bonds sold. There were net gains of $7,000 on the called bonds for the nine months ended September 30, 2022. There were net gains of $56,000 on the called bonds for the nine months ended September 30, 2021.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At September 30, 2022, investment securities with a fair value of $7,170,000 were pledged to secure public deposits and represented 10.4% of the investment portfolio. At December 31, 2021, investment securities with a fair value of $6,825,000, or 9.8% of the investment portfolio, were pledged. At September 30, 2022 investment securities with a fair value of $39,984,000 were callable within one year.

Loan Portfolio

The following table shows the composition of the loan portfolio by amount, percentage of total loans for each major loan category and the dollar volume and percentage change between the dates indicated.

(in thousands)	September 30, 2022	%	December 31, 2021	%	Net Change	Percent Change
Commercial & agricultural (1)	$ 135,652	14.9%	$ 144,969	17.4%	$ (9,317)	(6.4)%
Real estate - commercial	580,844	64.0%	504,891	60.6%	75,953	15.0%
Real estate - construction and land	86,594	9.6%	67,427	8.1%	19,167	28.4%
Real estate - single family	63,902	7.0%	65,590	7.9%	(1,688)	(2.6)%
Real estate - multifamily	40,782	4.5%	50,395	6.0%	(9,613)	(19.1)%
Consumer & lease financing	15	0.0%	44	0.0%	(29)	(65.9)%
	907,789	100%	833,316	100%	74,473	8.9%
LESS:						
Allowance for Credit Losses	(14,209)		(12,329)		(1,880)	15.2%
Total Loans, Net	$ 893,580		$ 820,987		$ 72,593	8.8%

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $6,492 as of September 30, 2022 and $16,957 as of December 31, 2021.

Gross loans increased $74,473,000 (8.9%) to $907,789,000 at September 30, 2022 from December 31, 2021. The increase was predominantly in the real estate – commercial and real estate – construction and land loan categories.

At September 30, 2022, the Bank had approximately $137,703,000 in undisbursed loan commitments, of which approximately $62,780,000 were commercial and agricultural and $61,337,000 related to real estate loan types. At December 31, 2021, the Bank had approximately $149,514,000 in undisbursed loan commitments, of which approximately $54,881,000 were commercial and agricultural and $94,614,000 related to real estate loan types.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the terms of the obligation and consist of nonaccrual loans and accruing loans past due 90 days or more.

The following are the nonperforming assets for the respective periods:

(in thousands)	September 30, 2022	December 31, 2021
Nonaccrual loans	$ 3,947	$ 322
Accruing loans past due 90 days or more	-	165
Total nonperforming loans	3,947	487
Other real estate owned	-	-
Total nonperforming assets	$ 3,947	$ 487
Nonperforming loans to total loans	0.43%	0.06%
Nonperforming assets to total assets	0.38%	0.06%
Allowance for credit losses to nonperforming loans	359.97%	2532.64%

Loans that are classified as TDRs were $1,011,000 at September 30, 2022, of which all were considered performing loans. Loans that are classified as TDRs were $2,128,000 at December 31, 2021, of which all were considered performing loans.

There was no other real estate owned (OREO) at September 30, 2022 or December 31, 2021.

Allowance for Credit Losses

The Bank's processes for determining the adequacy of the allowance for credit losses are set forth in a formal credit policy. Loans with similar risk characteristics are evaluated on a collective basis with similar risk characteristics and the allowance for credit losses is calculated using an estimate of the life of loan losses based on actual historical losses adjusted for economic forecasts and current conditions. The allowance for credit losses was $14,209,000 at September 30, 2022 compared to $12,329,000 at December 31, 2021.

The Bank maintains the allowance for credit losses to absorb expected credit losses associated with the Bank's loan portfolio. Additions to the allowance for credit losses are established through a provision for credit losses on its statement of income. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge-off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged-off in total. Collateral-dependent loans are individually evaluated for impairment to determine the ultimate loss potential to the Bank subsequent to the liquidation of collateral. In those cases where management believes the Bank is inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's credit policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, enable the Bank to assess such credit risk factors prior to granting new loans, evaluate the sufficiency of the allowance for credit losses and maintain the allowance for credit losses at an appropriate level. The Bank conducts an assessment of the allowance for credit losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examine and formally approve the adequacy of the allowance. Management estimates the allowance for credit losses using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and making adjustments to historical loss information for differences in the specific risk characteristics in the current loan portfolio. These factors include, among others, changes in the size and composition of the loan portfolio, changes in lending personnel, policies or procedures, differences in value of collateral, concentrations of credit, level of delinquent and nonaccrual loans, migration analysis of historical loss experience and current recoveries from 2009 through 2016, and current economic conditions, including COVID-19 pandemic.

The following table summarizes the activity in the Allowance for Credit Losses during the periods indicated.

SUMMARY OF ACTIVITY IN ALLOWANCE FOR CREDIT LOSSES

(Dollars in thousands)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Balance at beginning of period	$ 12,329	$ 8,882
Charge-offs:		
Commercial & agricultural	(21)	(41)
Total loans charged-off	(21)	(41)
Recoveries:		
Commercial & agricultural	25	27
Total recoveries	25	27
Net loans recovered	4	(14)
Impact of CECL Adoption	-	2,250
Provision for credit losses on loans	1,876	335
Allowance for credit losses - end of period	$ 14,209	$ 11,453
Loans:		
Average loans outstanding during period, net of unearned income	$ 851,560	$ 768,842
Total loans at end of period, net of unearned income	$ 907,789	$ 803,957
Ratios:		
Net loans (charged-off) recovered to average net loans (1)	0.00%	0.00%
Net loans (charged-off) recovered to total loans (1)	0.00%	0.00%
Allowance for credit losses to average net loans	1.67%	1.49%
Allowance for credit losses to total loans	1.57%	1.42%
Net loans (charged-off) recovered to provision for credit losses	0.21%	(4.18)%

(1) Annualized

Allocation of Allowance for Credit Losses

(in thousands)	September 30, 2022 Allowance Allocation	September 30, 2022 Amount of Category Loans to Total Loans	December 31, 2021 Allowance Allocation	December 31, 2021 Amount of Category Loans to Total Loans
Commercial & agricultural	$ 585	14.9%	$ 820	17.4%
Real estate - commercial	6,687	64.0%	5,168	60.6%
Real estate - construction and land	5,235	9.6%	4,585	8.1%
Real estate - single family	649	7.0%	690	7.9%
Real estate - multifamily	761	4.5%	916	6.0%
Consumer, lease financing & other	292	0.0%	150	0.0%
Total	$ 14,209	100%	$ 12,329	100%

The allowance allocation is highly dependent on the balance of gross loans, net charge-off rate, and contractual loan terms, adjusted for expected prepayments when appropriate. The specific loan pools evaluated at one period versus another can result in variations in the allocations. The increase in allowance allocated to real estate – commercial and real estate - construction and land, loans for the nine months ended September 30, 2022 was attributable to the increase in the amount of loans in each category. The increase in consumer, lease financing & other is attributable to the allocated allowance on a CRA Grant and Affordable Housing Investment. The decline in allowance allocated to commercial & agricultural, real estate - single family and real estate - multifamily loans was due to the decline in loans with specific allocations.

Deposits

At September 30, 2022, the Bank had a deposit mix of 29% in time deposits, 25% in money market and savings accounts, and 46% in demand accounts. At December 31, 2021, the Bank had a deposit mix of 24% in time deposits, 29% in money market and savings accounts, and 47% in demand accounts.

The following table sets forth the maturities of time deposits of $100,000 or more outstanding at September 30, 2022 and December 31, 2021.

Maturity of Time Deposits of $100,000 or More

(in thousands)	September 30, 2022	December 31, 2021
Time deposits of $100,000 or more maturing in:		
Three months or less	$ 49,594	$ 41,300
Over three through six months	26,356	13,375
Over six to twelve months	94,161	24,925
Over twelve months	48,840	27,980
Total time deposits of $100,000 or more	$ 218,951	$ 107,580

At September 30, 2022, the Bank had $55,116,000 in wholesale brokered deposits compared to $58,266,000 at December 31, 2021.

The Bank also obtains time deposits through an internet listing service. These deposits are primarily from other financial institutions. There were $18,404,000 and $20,148,000 of internet obtained deposits at September 30, 2022 and December 31, 2021, respectively.

Shareholder's Equity

Total shareholders' equity increased $139,000 to $84,421,000 at September 30, 2022 compared to $84,282,000 at December 31, 2021. The increase in shareholders' equity was primarily a result of an increase in net income for the third quarter of 2022 offset by a $9,989,000 increase in accumulated other comprehensive loss and a $2,418,000 payout of cash dividends.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, Federal funds sold, other short-term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan and investment securities sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB and FRB, and access to brokered certificates of deposit are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank can borrow from the Federal Reserve Discount Window by pledging investment securities or loans. The Bank is eligible to pledge the value of its unpledged agency securities at an amount that is dependent on the value of the security. As of September 30, 2022, the value of the unpledged agencies that are eligible to be pledged to the Federal Reserve were $32,594,000. As of September 30, 2022, $0 of securities were pledged to the Federal Reserve.

The Bank's liquid assets, defined as cash and cash equivalents, deposits with banks, Federal funds sold and the market value of unpledged available-for-sale investment securities, totaled $104,342,000 and constituted 10% of total assets at September 30, 2022 compared to $99,699,000 or 11% of total assets at September 30, 2021.

At September 30, 2022, the Bank had $246,292,000 in borrowing lines of credit from the FHLB, FRB, and correspondent banks with $73,700,000 in FHLB outstanding advances. At December 31, 2021, the lines of credit available were $277,106,000 with $48,500,000 in FHLB advances outstanding.

Cash was primarily provided in the first nine months of 2022 by $64,212,000 in proceeds from SBA loan sales, $58,271,000 increase in certificates of deposits and $25,200,000 increase in FHLB advances. Cash was used in the first nine months of 2022 to fund $130,829,000 of loan originations net of repayments, $15,349,000 in new investment securities and $3,431,000 paid for affordable housing tax credit investment.

Cash was primarily provided in the first nine months of 2021 by $58,687,000 increase in demand, savings and money market deposits primarily from the PPP loan program retaining deposits at the Bank, $21,909,000 in call and maturities of investment securities and $30,634,000 in proceeds from SBA loan sales. Cash was used in the first nine months of 2021 to fund $72,924,000 of loan originations (net of repayments), purchase $24,185,000 in new investment securities and $35,975,000 in matured certificates of deposits (net of new certificates of deposits). Additional information on the Bank's cash flows can be reviewed in the *Statement of Cash Flows* in Part I, Item 1 of this report.

The following table presents the capital ratios for Summit State Bank and the correspondent regulatory minimum requirements:

	September 30, 2022		December 31, 2021	
(in thousands)	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 87,824	9.6%	$ 79,193	9.6%
Minimum requirement with capital conservation buffer	$ 63,748	7.0%	$ 58,049	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 59,194	6.5%	$ 53,903	6.5%
Minimum regulatory requirement	$ 40,981	4.5%	$ 37,317	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 87,824	9.6%	$ 79,193	9.6%
Minimum requirement with capital conservation buffer	$ 77,408	8.5%	$ 70,488	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 72,854	8.0%	$ 66,342	8.0%
Minimum regulatory requirement	$ 54,641	6.0%	$ 49,756	6.0%
Total Capital Ratio				
Summit State Bank	$ 105,152	11.6%	$ 95,481	11.5%
Minimum requirement with capital conservation buffer	$ 95,621	10.5%	$ 87,073	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 91,068	10.0%	$ 82,927	10.0%
Minimum regulatory requirement	$ 72,854	8.0%	$ 66,342	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 87,824	8.7%	$ 79,193	8.7%
Minimum requirement for "Well-Capitalized" institution	$ 50,396	5.0%	$ 45,772	5.0%
Minimum regulatory requirement	$ 40,317	4.0%	$ 36,618	4.0%

The Bank's capital is supplemented through the retention of net income less dividends paid. The Bank's common dividend declared on October 25, 2022 is $0.12 per share or $808,000.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Proper management of the rate sensitivity and maturities of assets and liabilities is required to provide an optimum and stable net interest margin. Interest rate sensitivity spread management is an important tool for achieving this objective and for developing ways in which to improve profitability. Management has assessed its market risk at September 30, 2022 and believes that there has been no material change in its liability-sensitive position since December 31, 2021.

The Bank constantly monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Management responds to all of these to protect and possibly enhance net interest income while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above. Risks associated with interest rate changes and market risk are managed through the Bank's Interest Rate Risk Management Policy. This policy is reviewed and approved at least annually by the Board. The Board also monitors and establishes target positions for interest rate and market value risks through the Asset Liability Committee of the Board.

The tool most commonly used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of an interest rate shock for incremental interest rate changes up to +/- 4.00% is modeled quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

In addition to measuring net interest income changes, the Bank also uses the economic value of equity ("EVE") ratio to stress test longer-term interest rate risk exposure on capital. Stress testing EVE will show the impact that fluctuating interest rates will have on the Bank's capital and give insight into the Bank's earning capacity and risk. This ratio is calculated by taking in difference in the net present value of asset cash flows (loan and investment securities) and liability cash flows (deposits and borrowings). Major assumptions used in determining fair values include maturities, repricing periods, and decay rates of non-maturity deposits. As the calculation is highly dependent on assumptions, as well as the change in the shape of the yield curve being modeled, it is not considered to be an exact calculation and instead is used as an interest rate risk monitoring tool.

Based on results of the quarterly model, the Bank is normally liability sensitive during a one and two-year period, meaning that during that timeframe more liabilities/deposits will reprice than assets/loans. The expectation for a liability sensitive bank is that the net interest margin will decline in a rising interest rate environment. However, various factors influence the change in the Bank's margin when general market interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, the extension or contraction of maturities of new and renewed assets and liabilities, the particular shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there is an immediate impact from loans that are tied to a daily prime lending or other index rate. The repricing of liabilities to offset this change requires time for deposits to mature and renew. Based strictly on maturing time deposits and borrowings, and without the other factors listed above, it normally will take three months for the Bank to reprice liabilities to offset a prime rate change. When preparing the model, the Bank makes significant assumptions about the lag in the rate of change and impacts of optionality in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks and annually tests the validity of its assumptions by reviewing actual results with projected expectations. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact in order for management to monitor exposures to interest rate risk and make adjustments to the balance sheet if needed.

The computer simulation model assumes a static balance sheet, that is, cash flows from various assets and liabilities are reinvested in similar assets and liabilities. It does not model various dynamic changes in the pricing or term of new assets and liabilities that may occur during the year after the interest rate shock. The computer simulation model projects at September 30, 2022 the following changes over a one-year period in net interest income:

Interest Rate Risk Simulation Model

(in thousands)

Interest Rate Shock	-1%	1%	2%	3%	4%
Net interest income change	$ (1,429)	$ 1,150	$ 2,268	$ 3,394	$ 4,528
Net interest percent change	-3.0%	2.4%	4.7%	7.1%	9.5%

The Bank's investment portfolio has an average maturity of 11.4 years and would be susceptible to a material decline in market value if interest rates were to materially rise. Management monitors this exposure in relation to the Bank's capital ratios and the interaction of the projected changes in other interest sensitive assets and liabilities to reach a desired balance between current earnings and market risk.

Item 4 Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Bank's management, including its Chief Executive Officer and Chief Financial Officer, the Bank conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as defined by Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of September 30, 2022. Based on its evaluation, management concluded that, due to the identification of a material weakness in the Bank's internal control over financial reporting, as further described below, its disclosure controls and procedures were not effective as of September 30, 2022.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement in our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness resulted in the misclassification of cash flows with respect to "Proceeds from sales of loans other than loans originated for resale" as operating activities rather than investment activities, resulting in the Bank's restatement of its audited financial statements for the year ended December 31, 2021, and the unaudited interim financial statements for the periods ended March 31, 2022 and June 30, 2022. Net cash from financing activities and net change in cash and cash equivalents were not affected in any period. This material weakness could result in further misstatements of the classification of cash flows for "Proceeds from sales of loans other than loans originated for resale" that would result in a material misstatement to the Bank's annual or interim financial statements that would not be prevented or detected.

Revised Report of Management on Internal Control Over Financial Reporting from the 2021 Form 10-K

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and board of directors; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2021, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management concluded that the Bank maintained effective internal control over financial reporting as of December 31, 2021. Subsequently, in November 2022, management determined that the Bank did not maintain effective control over the classifications within the Statement of Cash Flows. On November 17, 2022, the Bank's Board of Directors authorized management to restate the Bank's previously issued audited annual financial statements for the year ended December 31, 2021 and the unaudited interim financial statements for the periods ended March 31, 2022 and June 30, 2022 (the "Affected Financial Statements"). Accordingly, management has concluded that the control deficiency that resulted in the misclassification of "Proceeds from sales of loans other than loans originated for resale" within "cash flows from operating activities" versus the proper classification within "cash flows from investing activities" on the Statements of Cash Flows for the Affected Financial Statements constituted a material weakness as of December 31, 2021. Soley as a result of this material weakness, management has revised its earlier assessment and now has concluded that the Bank's internal control over financial reporting was not effective as of December 31, 2021.

Remediation Plan and Status

In response to the identified material weakness, management has revised its quarterly reporting process to include additional reviews by an outside firm that has the technical skills, knowledge, and experience to verify all reclassifications within the Bank's quarterly financial statements. A summary of all reclassifications will be provided to the Bank's Audit Committee quarterly and include a summary of who inquired about the change and what specific accounting guidance or rule the change applies to in order to ensure proper interpretation and reporting has taken place.

We believe the measures described above will remediate this material weakness and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures, and we may take additional measures to address control deficiencies, or we may modify, or in appropriate circumstances not complete, certain of the remediation measures described above. This material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

(b) Changes in Internal Control Over Financial Reporting

There were no changes in the Bank's internal control over financial reporting identified in connection with management's evaluation that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting. However, as described above, management did implement changes in internal controls over financial reporting during the fourth quarter of 2022 while preparing the interim financial information for the third quarter, designed to remediate a material weakness related to reclassifications within its financial statements.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

The nature of our business causes us to be involved in legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation where management anticipates that the outcome will have a material adverse effect on the financial position or results of operations.

Item 1A Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors that appeared under Item 1A, "Risk Factors" in the Bank’s 2021 Annual Report. There are no material changes from the risk factors included within the Bank's 2021 Annual Report.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibit Index

The exhibits filed as part of this report are listed on the Exhibit Index filed as part of this report.

Exhibit Number	Description
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Summit State Bank

(registrant)

November 21, 2022	*/s/ Brian J. Reed*
Date	Brian J. Reed President and Chief Executive Officer (Principal Executive Officer)

November 21, 2022	*/s/ Camille D. Kazarian*
Date	Camille D. Kazarian Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.01

Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Brian J. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 21, 2022	*/s/ Brian J. Reed*
Date	Brian J. Reed President and Chief Executive Officer (Principal Executive Officer) Summit State Bank

Exhibit 31.02

Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Camille D. Kazarian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 21, 2022 */s/ Camille D. Kazarian*

Date

Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
Summit State Bank

EXHIBIT 32.01

Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report on Form 10-Q of Summit State Bank (the Registrant) for the quarter ended September 30, 2022, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

November 21, 2022	*/s/ Brian J. Reed*
Date	Brian J. Reed President and Chief Executive Officer (Principal Executive Officer)
November 21, 2022	*/s/ Camille D. Kazarian*
Date	Camille D. Kazarian Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

This certification accompanies each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.