



Pacific Coast Bankers' Bancshares

**Consolidated Financial Report**

December 31, 2021

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
Pacific Coast Bankers' Bancshares and Subsidiaries

### Opinion

We have audited the consolidated financial statements of Pacific Coast Bankers' Bancshares and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

*RSM US LLP*

San Francisco, California  
March 11, 2022

**Consolidated  
Financial  
Statements**

## Consolidated Balance Sheets

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and due from banks	\$ 14,302	\$ 9,551
Interest-bearing deposits in other financial institutions	673,970	409,127
Restricted cash	991	16,400
<b>Cash and cash equivalents</b>	<b>689,263</b>	<b>435,078</b>
Securities available for sale	52,064	79,448
Securities held to maturity	47,351	-
Federal Home Loan Bank stock, at cost	2,122	2,680
Federal Reserve Bank stock, at cost	1,411	1,401
Loans, net	191,248	189,737
Equipment and leasehold improvements, net	5,559	5,676
Cash surrender value of life insurance policies	8,422	8,266
Fair value of derivative contracts	417,220	588,783
Interest receivable and other assets	9,424	7,412
<b>Total assets</b>	<b>\$ 1,424,084</b>	<b>\$ 1,318,481</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing	\$ 660,419	\$ 406,875
Interest-bearing	576,830	700,056
<b>Total deposits</b>	<b>1,237,249</b>	<b>1,106,931</b>
Term loan	27,000	30,000
Trust preferred securities	19,589	19,589
Fair value of derivative contracts	31,365	62,558
Interest payable and other liabilities	15,923	10,163
<b>Total liabilities</b>	<b>1,331,126</b>	<b>1,229,241</b>
<b>Commitments and Contingencies</b> (Notes 10, 11, and 12)		
<b>Shareholders' Equity</b>		
Preferred stock (\$100 par value); authorized 10,000,000 shares; Series D, 49,500 shares issued and outstanding at December 31, 2021 and 2020	4,950	4,950
Common stock (no par value); authorized 10,000,000 shares; 1,004,532 shares issued and outstanding at December 31, 2021 and 2020	19,231	19,231
Additional paid-in capital	786	323
Retained earnings	67,252	63,492
Accumulated other comprehensive income	739	1,244
<b>Total shareholders' equity</b>	<b>92,958</b>	<b>89,240</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,424,084</b>	<b>\$ 1,318,481</b>

See notes to consolidated financial statements.

## Consolidated Statements of Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares  
Years ended December 31, 2021 and 2020

	2021	2020
<b>Interest and dividend income</b>		
Interest and fees on loans	\$ 7,170	\$ 9,858
Interest on securities	1,685	2,344
Interest on federal funds sold	759	724
Other	14	17
<b>Total interest and dividend income</b>	<b>9,628</b>	<b>12,943</b>
<b>Interest expense</b>		
Interest on deposits	1,075	3,679
Interest on FHLB advances and other borrowings	1,234	1,271
Interest on trust preferred securities	781	839
Interest on federal funds purchased	- -	215
<b>Total interest expense</b>	<b>3,090</b>	<b>6,004</b>
<b>Net interest income</b>	<b>6,538</b>	<b>6,939</b>
Provision for (release of) reserve for loan losses	(650)	288
<b>Net interest income after provision for loan losses</b>	<b>7,188</b>	<b>6,651</b>
<b>Non-interest income</b>		
Transaction, brokerage and service fees	23,288	52,789
Account analysis fees	6,248	5,524
Realized gain on derivative contract settlements	50,027	40,433
Other non-interest income	3,990	3,690
<b>Total non-interest income</b>	<b>83,553</b>	<b>102,436</b>
<b>Non-interest expense</b>		
Salaries and employee benefits	21,015	28,619
Service charges	7,783	7,343
Occupancy and equipment	2,616	2,761
Net loss from change in fair value of derivatives	45,905	29,783
Net realized loss on sale of loans	99	309
Loss on disposal of assets	68	929
Other non-interest expense	6,093	6,421
<b>Total non-interest expense</b>	<b>83,579</b>	<b>76,165</b>
<b>Income before income taxes</b>	<b>7,162</b>	<b>32,922</b>
<b>Income taxes</b>	<b>1,800</b>	<b>8,598</b>
<b>Net income</b>	<b>\$ 5,362</b>	<b>\$ 24,324</b>

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares  
Years Ended December 31, 2021 and 2020

	2021	2020
Net income	\$ 5,362	\$ 24,324
Other comprehensive income, net of tax:		
Unrealized (loss) gain on investment securities	<u>(505)</u>	<u>1,281</u>
<b>Comprehensive income</b>	<b><u>\$ 4,857</u></b>	<b><u>\$ 25,605</u></b>

*See notes to consolidated financial statements.*

## Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares  
Year Ended December 31, 2021

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Gain/(Loss)	Total
Balance at January 1, 2021	1,004,532	49,500	\$ 19,231	\$ 4,950	\$ 323	\$ 63,492	\$ 1,244	\$ 89,240
Net income						5,362		5,362
Other comprehensive income							(505)	(505)
Restricted stock units					463			463
Cash dividends on preferred series D						(347)		(347)
Cash dividends on common stock (\$1.25 per share)						(1,255)		(1,255)
<b>Balance at December 31, 2021</b>	<b>1,004,532</b>	<b>49,500</b>	<b>\$ 19,231</b>	<b>\$ 4,950</b>	<b>\$ 786</b>	<b>\$ 67,252</b>	<b>\$ 739</b>	<b>\$ 92,958</b>

See notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares  
Year Ended December 31, 2020

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Gain/(Loss)	Total
Balance at January 1, 2020	1,004,532	49,500	\$ 19,231	\$ 4,950	\$ -	\$ 40,770	\$ (37)	\$ 64,914
Net income						24,324		24,324
Other comprehensive income							1,281	1,281
Restricted stock units					323			323
Cash dividends on preferred series D						(347)		(347)
Cash dividends on common stock (\$1.25 per share)						(1,255)		(1,255)
<b>Balance at December 31, 2020</b>	<b>1,004,532</b>	<b>49,500</b>	<b>\$ 19,231</b>	<b>\$ 4,950</b>	<b>\$ 323</b>	<b>\$ 63,492</b>	<b>\$ 1,244</b>	<b>\$ 89,240</b>

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares  
Years Ended December 31, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 5,362	\$ 24,324
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,652	1,739
Amortization of premiums on securities, net	1,096	1,158
Deferred tax benefit	(252)	(1,804)
(Release of) Provision for reserve for loan losses	(650)	288
Provision for unfunded commitments	12	15
Change in fair value of derivatives	139,979	(324,451)
Deferred loan origination costs, net of amortization	256	(26)
Loss on disposal of fixed asset	68	929
Loss on sale of loans	99	309
Non-cash equity compensation expense	463	323
Changes in other assets and other liabilities	4,430	(2,507)
<b>Net cash provided by (used in) operating activities</b>	<b>152,515</b>	<b>(299,703)</b>
<b>Cash Flows from Investing Activities</b>		
Activity in securities:		
Maturities, prepayments and calls	31,962	29,479
Sale of available for sale securities	(53,737)	--
Proceeds from sale of FRB stock and FHLB stock	558	1,087
Purchases of FRB stock and FHLB stock	(10)	--
Loans funded, net	(7,117)	26,675
Sale of loans	5,901	15,657
Purchase of equipment and leasehold improvements	(1,603)	(2,663)
<b>Net cash (used in) provided by investing activities</b>	<b>(24,046)</b>	<b>70,235</b>
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	130,318	529,812
Proceeds from other borrowings	--	13,000
Paydown from other borrowings	(3,000)	--
Cash dividends on common stock	(1,255)	(1,255)
Cash dividends on preferred stock	(347)	(347)
<b>Net cash provided by financing activities</b>	<b>125,716</b>	<b>541,210</b>
<b>Net increase in cash and cash equivalents</b>	<b>254,185</b>	<b>311,742</b>
<b>Cash and Cash Equivalents</b>		
Beginning of the year	435,078	123,336
<b>End of the year</b>	<b>\$ 689,263</b>	<b>\$ 435,078</b>

**Consolidated Statements of Cash Flows (Cont.)**

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares  
Years Ended December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Interest paid	\$ 3,128	\$ 6,060
Income taxes paid, net of refunds received	2,667	11,239
<b>Supplemental Disclosure of Non-Cash Investing Activities</b>		
Fair value adjustment of securities available for sale	\$ (505)	\$ 1,281

*See notes to consolidated financial statements.*

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies

Pacific Coast Bankers' Bancshares (the Company) consists of a bank holding company and one operating subsidiary: Pacific Coast Bankers' Bank (the Bank). The Company also owns the outstanding stock of PCBB Trust I and PCBB Trust II, which were organized for the purpose of issuing Company-obligated trust preferred securities. The Company is subject to regulations imposed by supervisory agencies and undergoes periodic examinations.

The Bank is a state chartered bank and a Federal Reserve Bank (FRB) member. The Bank is defined by statute as a "bankers' bank," under which it is organized to transact business with other financial institutions and is primarily owned by financial entities. The Bank provides a full range of correspondent services to financial institutions throughout the United States, including cash management, advisory, hedging, cash letter settlement, lending, foreign exchange, and other services.

#### Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the financial services industry. Preparation of consolidated financial statements in conformity with GAAP includes the use of certain estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the Company's results and its disclosure for the periods presented. Actual results could differ materially from those derived from estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale, and the valuation of derivative contracts.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany transactions and balances have been eliminated.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation, with no effect on previously reported shareholders' equity and net income.

#### Subsequent Events

Management has evaluated subsequent events through March 11, 2022, which is the date the consolidated financial statements were available to be issued. All material subsequent events that required recognition or disclosure are reflected in the consolidated financial statements for the year ended December 31, 2021.

#### Cash Equivalents and Cash Flows

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits in other financial institutions that have an initial maturity of less than 90 days when acquired by the Bank. Generally, federal funds are sold for one-day periods. Cash flows from loans, federal funds purchased and deposits are reported net. The Company maintains its cash in accounts maintained in depository institutions that may, at times, exceed federally insured limits. The Company has not experienced losses from these accounts.

#### Restricted Cash

Restricted cash represents cash balances held at financial institutions required to be pledged to secure derivative transactions.

#### Preferred Series D Stock

The Board of Directors designated up to 100,000 shares for issuance and the Company has issued

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Preferred Series D Stock (Cont.)

preferred D cumulative perpetual preferred stock, which pays dividends at a rate of 7.00 percent on a semi-annual basis on April 1 and October 1. The preferred D shares are redeemable by the Company at any time. Preferred D shares have no right to exchange or convert such shares into any other securities. In general, preferred D shares shall not have any voting rights, except as may be required by law or class voting rights on particular matters.

#### Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits consist of balances in financial institutions and deposits with the FRB, which are carried at cost.

#### Investment Securities

Securities available for sale consist of debt securities that the Bank intends to hold for an indefinite period but not necessarily to maturity. Such securities may be sold to implement the Bank's asset/liability management strategies and in response to changes in interest rates and other factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled *Accumulated Other Comprehensive Income (Loss)*. Realized gains and losses on securities available for sale, determined using the specific-identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income.

Management evaluates securities for other-than-temporary impairment (OTTI) when economic or market conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near term prospects of the issuer, including an evaluation of credit ratings, asset quality and general market conditions; (3) the impact of changes in market interest rates; (4) the intent of Company to sell a security; and (5) whether it is more likely than not that the Company will have to sell the security before recovery of its cost basis.

If the Company intends to sell an impaired security, an other-than-temporary loss is recognized for the difference between the fair value and the amortized cost. If a security that the Company does not intend to sell is determined to be subject to OTTI, loss recognition is limited solely to the extent of the credit portion in the estimated loss, with the remaining market portion of the loss recognized in other comprehensive income.

Securities classified as held to maturity are carried at amortized cost. Classification due to the Bank's intent to hold such securities to maturity and the Bank's ability to do so.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Federal Home Loan Bank and Federal Reserve Bank Stocks

The Bank is required to hold non-marketable equity securities from the FRB and the Federal Home Loan Bank (FHLB) of San Francisco as a condition of membership. These securities do not have a readily determinable fair value as their ownership is restricted; there is no market for these securities.

The Company accounts for these securities in accordance with Accounting Standards Codification (ASC) 942-325-35, Financial Services – Depository and Lending: Investments – Other, under which stock is carried at cost and periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating FRB and FHLB stocks for impairment, management considers the ultimate recoverability of the par value based on the ability of the issuer to perform its obligations. FHLB and FRB stocks were not considered impaired during the years ended December 31, 2021 and 2020.

#### Loans Receivable and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances and adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using the interest method.

Because some loans may not be repaid in full, an allowance for loan losses is recorded. An allowance for loan losses is a valuation allowance for probable incurred loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance represents an amount, which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible.

Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, historical losses, loan concentrations, trends in past dues and non-accrual loans, loan risk ratings, economic conditions, market conditions and other internal and external factors that influence each portfolio segment and review of specific impaired loans. The combination of these results are compared monthly to the recorded allowance for loan losses for reasonableness and material differences are adjusted by increasing or decreasing the provision for loan losses.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. Loans are considered impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at present value of estimated cash flows using the loan's existing rate or fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or a portion thereof, are charged off when deemed uncollectible.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### **Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)**

#### **Loans Receivable and Allowance for Loan Losses (Cont.)**

the allowance based on their judgment about information available to them at the time of their examinations. As a matter of policy, the Bank estimates a liability for possible losses associated with unfunded loan commitments. This estimate applies a percentage factor of the total unfunded loan commitments.

Interest income on loans is accrued over the term of the loans based on the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, as well as when required by regulatory provisions. Past-due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on non-accrual loans are applied as a reduction to principal. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

#### **COVID-19 Loan Modifications**

During the pandemic, certain borrowers have experienced difficulties in meeting their contractual loan payment obligations because of the adverse effects of COVID-19. To help mitigate these effects, the Company applies the provisions outlined in the CARES act to permit borrower deferral of payments or other reasonable modifications while avoiding troubled debt restructuring accounting. After the initial modification period, borrowers may request an additional deferral. As of year-end 2021, a small proportion of loans have continued to utilize this modification provision. In the absence of other intervening factors, such modifications made on a good faith basis are not categorized as troubled debt restructurings, nor are loans granted payment deferrals related to COVID-19 reported as past due or placed on non-accrual status (provided the loans were not past due or on non-accrual status prior to the modification). There were no loans and 5 loans in COVID-19 related deferment with an aggregate outstanding balance of approximately \$12.8 million for the years ended December 31, 2021 and 2020, respectively. The treatment is in line with the "CARES" act - Coronavirus Aid, Relief, and Economic Security Act.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Troubled Debt Restructuring

A troubled debt restructuring (TDR) is a concession provided by the Bank to a borrower with the expectation of receiving a greater benefit, such as more cash or other value, or of increasing the probability of receipt, by granting the concession than by not granting it. The concession is provided due to the borrower's financial difficulties provoked by economic or legal reasons. Modifications in loan terms under TDR include, but are not limited to, a reduction in interest rate, an extension of the maturity at an interest rate below market, a reduction in the face amount of debt, a reduction in accrued interest, or an extension, deferral, renewal or rewrite. The selection of the type and extent of concession granted to the borrower is based on expectations to obtain more cash or other value from the borrower, or to increase the probability of receipt by granting the concession than by not granting it.

The restructured loans may be classified as "special mention" or "substandard," depending on the severity of the modification, and are considered impaired. Loans that were paid current at the time of modification may be upgraded in their classification after a sustained period of repayment performance, usually six months or longer.

Past-due loans at the time of modification are classified as substandard and are considered impaired and placed on nonaccrual status. Those loans may be upgraded in their classification and placed on accrual status upon a sustained period of repayment performance during six months or longer and the achievement of reasonable assurance that repayment will continue; however such loans continue to be considered impaired. Consistent with regulatory guidance, a TDR loan that is subsequently modified in another restructuring agreement but has shown sustained performance and classification as a TDR will be removed from TDR status provided the modified terms were market based at the time of the modification.

#### Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at their cost less accumulated depreciation. Equipment is depreciated over the economic life of the asset using the straight-line method. Leasehold improvements are depreciated over the lesser of the lease term and the economic life. Gains or losses on dispositions are reflected in earnings.

Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If management determines impairment exists, the carrying amount is adjusted and impairment loss is recognized.

<b>Asset Classification</b>	<b>Estimated Useful Life</b>
Internal software development	3 - 5 years
Hardware	3 - 5 years
Furniture and fixtures	7 years
Leasehold improvements	5 - 7 years

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Cash Surrender Value of Life Insurance Policies

Life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statements of income and are not subject to income taxes.

#### Account Analysis Fees

The Bank analyzes certain demand deposit accounts (Analyzed Accounts) for those customers who choose to maintain account balances to offset some or all of their account service charges. Account service charges include account activity fees charged by the Bank, as well as third-party service charges, including FRB charges passed on to customers. The Bank reduces account service charges by an earnings credit, based upon the average balances maintained each month in the Analyzed Accounts.

#### Advisory Fees

The Company provides risk and performance advisory services under contractual arrangements with customers. Revenue on contracts with customers is determined by performing the following analysis: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when a performance obligation is satisfied. The Company's contracts with customers are generally long term in nature, typically with a three to five-year expiration and contain an auto renewal element. Performance obligations for the Company's customer contracts are primarily satisfied over the life of the contract with a necessary set-up element beginning at contract inception. Performance obligations satisfied over time are recognized ratably over the contract term. Customer set-up is recognized using the output method, directly measuring the value of the service transferred to the customer. The Company typically receives payment from customers on a quarterly or annual basis. For payments received in advance of the satisfaction of performance obligations, revenue recognition is deferred until such time as the performance obligations have been satisfied. In cases where the Company has not received payment despite satisfaction of the Company's performance obligations, the Company accrues an estimate of the amount due in the period the Company's performance obligations have been satisfied.

#### Transaction, Brokerage and Service Fees

Transaction and service fee income includes brokerage fees for loans, domestic and international wires, as well as other transaction and services fees. Income is recognized on the trade-date basis for brokerage fees and at the time service is provided for other services fees.

#### Transfers of Financial Assets

Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. The latter is deemed to occur when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange the assets it received and provides more than a modest benefit to the transferor; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loan receivables), the transfer must meet the definition of participating interest in order to account for the transfer as a sale, for which the following

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Transfers of Financial Assets (Cont.)

conditions must be met:

- Pro rata ownership in the entire financial asset.
- From the date of the transfer, all cash flows received from the entire financial assets are divided proportionately among the participating interest holders in an amount equal to their shares of ownership.
- The rights of each participating interest holder have the same priority and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to the pledge or exchange.

#### Income Taxes

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The respective tax benefits recognized in the consolidated financial statements are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods. When applicable, the Company will recognize interest and penalties related to unrecognized tax benefits within the income tax expense line on the accompanying consolidated statements of income. Accrued interest and penalties will be included within the related tax liability line on the consolidated balance sheets, when applicable. During the years ended December 31, 2021 and 2020, no significant interest or penalties were accrued.

#### Derivatives and Hedging Activities

##### Credit Risk

The Bank is subject to risk of non-performance by counterparties in derivative agreements. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Bank's risk management policies and credit guidelines. Based on the master netting arrangements, credit analyses and collateral requirements in place, management does not anticipate credit losses on its agreements, for which no allowance for losses is deemed necessary. To mitigate this risk, certain derivatives are cleared through a central clearing exchange. Cleared derivatives are treated as settled-to-market which means the value of the contracts are settled each day which results in a fair value of \$0. For the years ended December 31, 2021 and 2020, the Company cleared total notional of \$58 million and \$0, respectively.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Derivatives and Hedging Activities (Cont.)

##### Intermediation

As a service to its customers, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary in offsetting derivatives transactions with customer banks and other counterparties. This intermediation allows customers indirect access to the derivatives market. The offsetting derivatives used in intermediary activities do not receive hedge accounting treatment in accordance with derivative topic of the Financial Accounting Standards Board (FASB) ASC and are separately marked to fair value through earnings.

See Note 16 for more information on derivatives provided as a service to customers.

##### Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. The framework comprises a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; data other than observable quoted prices or derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Data unobservable and significant to the fair value measurement, including financial instruments whose value is determined using discounted cash flows, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Provided fair value disclosures and balances, which pertain to the Company's consolidated financial statements do not represent the aggregate net fair value of the Company. Further, fair value estimates are based on various assumptions, methodologies and subjective considerations which vary widely among different financial institutions and which are subject to change.

The Company's fair value assessments are constructed based on the following methods and assumptions:

##### Securities Available for Sale

The fair value of securities is based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices for comparable instruments.

##### Off-Balance-Sheet Instruments

The fair value of commitments and guarantees to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms and the customers' creditworthiness. Since the majority of the Company's off-balance-sheet instruments consist of non-fee producing, variable-rate commitments, the Company has determined that they do not have a distinguishable fair value.

##### Derivative Contracts

The carrying amount of interest rate caps, interest rate floors, interest rate swaps, and prepayment agreements approximates fair value and is estimated using a discounted cash flow method based on current incremental rates for similar types of arrangements.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Recent Accounting Pronouncements

ASU No. 2016-02, "*Leases (Topic 842)*." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of ASU No. 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326)*." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2022; early adoption is permitted for annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's consolidated financial statements.

The guidance of ASU 2016-13 was recently amended by ASU 2018-19 "*Codification Improvements to Topic 326, Financial Instruments – Credit Losses*," which changed the effective date for non-public companies and clarified that operating lease receivables are not within the scope of the standard.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 1 - Nature of Business and Summary of Significant Accounting Policies (Cont.)

#### Recent Accounting Pronouncements (Cont.)

ASU 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* ASU 2020-04 provides optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2021, except for hedging relationships existing as of December 31, 2021, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 was effective upon issuance and generally can be applied through December 31, 2021. The adoption of ASU 2020-04 did not significantly impact the Company's consolidated financial statements.

ASU 2021-01, *"Reference Rate Reform (Topic 848): Scope"*, clarifies that certain optional expedients and exceptions in ASC 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in ASC 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. ASU 2021-01 was effective upon issuance and generally can be applied through December 31, 2021. The adoption of ASU 2021-01 did not significantly impact the Company's consolidated financial statements.

ASU 2021-07, *"Compensation – Stock Compensation (Topic 718)"*. allows a non-public entity to determine the current price of a share underlying an equity classified award using the reasonable application of a reasonable valuation method. ASU 2021-07 is effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application, including application in an interim period, is permitted for financial statements that have not yet been issued or made available for issuance as of October 25, 2021. The Company is currently evaluating the provisions of ASU 2021-07 and will be monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

#### Commitments and Contingencies

In accordance with applicable accounting guidance, the Company establishes reserves for legal expenses and disputes resolution when those matters represent contingencies that are both probable and the amount is estimable, including claims and legal actions arising in the ordinary course of business. These reserves are recorded as liabilities.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 2 - Agency Program

The Bank acts as an agent for selling overnight federal funds on behalf of respondent financial institutions. Participating institutions place trades daily and, simultaneously, the Bank makes the sales to preapproved purchasing banks. The Bank also maintains balances in excess balance accounts at the FRB on behalf of respondent banks. Only the Bank's balance is recognized on the Bank's Balance Sheet. At December 31, 2021 and 2020, outstanding respondent federal funds sold and excess balance accounts totaled \$4.0 billion and \$2.8 billion, respectively. As a result of this service, the Bank recorded as-agent fee income of \$0.9 million and \$0.7 million for the years ended December 31, 2021 and 2020, respectively. The Bank is a preapproved purchasing bank in the overnight federal funds program and had no federal funds purchased at December 31, 2021 and 2020.

### Note 3 - Cash and Cash Equivalents

Cash and due from banks includes balances with the FRB and other correspondent banks.

The Bank also provides federal funds facilities to respondent banks. These uncommitted facilities are approved for up to one year and permitted usage is subject to terms and conditions as stipulated by the Bank. At December 31, 2021 and 2020, the Bank had provided federal funds facilities to 31 respondent banks for \$157 million and 264 respondent banks for \$1.5 billion, respectively. There are no outstanding agreements at December 31, 2021 and 2020.

### Note 4 - Investment Securities

The amortized cost and estimated fair value of securities available for sale as of December 31 consist of the following (in thousands):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>December 31, 2021</b>				
Agency mortgage-backed securities	\$ 51,023	\$ 1,042	\$ (1)	\$ 52,064
<b>December 31, 2020</b>				
Agency mortgage-backed securities	\$ 77,696	\$ 1,753	\$ (1)	\$ 79,448

The amortized cost of securities held to maturity as of December 31 consist of the following (in thousands):

	<b>Amortized Cost</b>
<b>December 31, 2021</b>	
Agency mortgage-backed securities	\$ 47,351
<b>December 31, 2020</b>	
Agency mortgage-backed securities	\$ --

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 4 - Investment Securities (Cont.)

The following shows the unrealized gross losses and fair value of securities in the securities available for sale portfolio at December 31 by length of time that individual securities in each category have been in a continuous loss position (in thousands):

	Less than 12 months		12 months or more		Total Unrealized	
	Unrealized Gross Loss	Unrealized Fair Value	Unrealized Gross Loss	Unrealized Fair Value	Gross Loss	Fair Value
<b>December 31, 2021</b>						
Agency mortgage-backed securities	\$ --	\$ 2	\$ (1)	\$ 67	\$ (1)	\$ 69
<b>December 31, 2020</b>						
Agency mortgage-backed securities	\$ (1)	\$ 176	\$ --	\$ --	\$ (1)	\$ 176

There was 1 security that had been in an unrealized loss position for 12 months or more at December 31, 2021 and none at December 31, 2020.

The amortized cost and estimated fair value of available-for-sale debt securities, by contractual maturity, at December 31, 2021, are shown below (in thousands). Actual and contractual maturities may differ due to issuers' right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in 1 year or less	\$ 12	\$ 12
Due from 1 to 5 years	4,681	4,776
Due from 5 to 10 years	33,937	34,510
Due after 10 years	12,393	12,766
<b>Total</b>	<b>\$ 51,023</b>	<b>\$ 52,064</b>

Securities with a fair value of \$0.8 million and \$1.1 million were pledged to secure borrowing arrangements as of December 31, 2021 and 2020, respectively.

Securities with a fair value of \$21.3 million and \$54.5 million were pledged to derivative counterparties as of December 31, 2021 and 2020, respectively.

There were no gross realized gains or losses on securities for the years ended December 31, 2021 and 2020. Based on management's evaluation and intent, the unrealized losses related to the investment securities in the above tables are considered temporary.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses

Loans at December 31 consist of the following (in thousands):

	2021	2020
Commercial construction	\$ 6,105	\$ 5,613
Commercial real estate	62,720	112,440
Multifamily real estate	38,467	64,021
1 to 4 family real estate	1,168	1,184
Commercial and industrial	86,305	10,388
<b>Loans before deferrals and allowance</b>	<b>194,765</b>	<b>193,646</b>
Net deferred loan origination fees	(128)	130
Allowance for loan losses	(3,389)	(4,039)
<b>Loans, net</b>	<b>\$ 191,248</b>	<b>\$ 189,737</b>

The Bank facilitates the participation of loans on behalf of its respondent banks, generally retaining a portion in its portfolio.

As of December 31, 2021 and 2020, loans totaling \$121 million and \$58 million, respectively, were pledged to the FRB to secure a borrowing facility. There was no amount drawn on this facility as of December 31, 2021 and 2020. As of December 31, 2021 and 2020, loans totaling \$63 million and \$127 million, respectively, were pledged to the FHLB to secure a borrowing facility. There was no amount drawn on this facility as of December 31, 2021 and 2020.

### Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis. A reporting system supplements the internal review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company also engages a third party to perform a credit review of the loan portfolio regularly.

As of December 31, 2021, approximately 56 percent of the Company's loans are for real estate and construction for both residential and commercial properties, of which construction represents approximately 3 percent of the total loan portfolio. As of December 31, 2021, approximately 44 percent of the Bank's loans are for general commercial uses, including professional, retail and small business. Generally, real estate loans are collateralized by real estate property, while commercial loans are collateralized by business assets.

Commercial real estate and multifamily real estate loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses (Cont.)

#### Risk Management (Cont.)

Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company has geographic concentrations in commercial real estate and multifamily loans. At December 31, 2021, 65 percent of loans were located in California, 5 percent in New York, and 4 percent in Colorado, Illinois, Indiana, Nevada and Washington respectively. The remaining 10 percent of loans are distributed among 9 other states.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value. Moreover, commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. At December 31, 2021, the Company owned no syndicated loans. As these are purchased portions of large syndicated loans, the Company has limited influence on their management. A secondary market exists for these credits, which improves the liquidity of these loans, which also introduces market risk. Loans for construction, 1 to 4 family residential properties and other loans do not make up a significant number of loans or outstanding balances to be considered material.

Loans for 1 to 4 family residential underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Loans to 1 to 4 family residential borrowers are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

Agriculture loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Agriculture loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value.

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses (Cont.)

#### Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the due date. An age analysis of past due loans (including both accruing and non-accruing loans), segregated by class of loans, as of December 31, 2021 and 2020 was as follows (in thousands):

#### Age Analysis of Past Due Loans as of December 31, 2021

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real Estate:						
Commercial construction	\$ --	\$ --	\$ --	\$ 6,105	\$ 6,105	\$ --
Commercial real estate	--	--	--	62,720	62,720	--
Multifamily real estate	--	--	--	38,467	38,467	--
1 to 4 Family real estate	--	--	--	1,168	1,168	--
Commercial and industrial	--	--	--	86,305	86,305	--
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 194,765</u>	<u>\$ 194,765</u>	<u>\$ --</u>

#### Age Analysis of Past Due Loans as of December 31, 2020

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real Estate:						
Commercial construction	\$ --	\$ --	\$ --	\$ 5,613	\$ 5,613	\$ --
Commercial real estate	--	--	--	112,440	112,440	--
Multifamily real estate	--	--	--	64,021	64,021	--
1 to 4 Family real estate	--	--	--	1,184	1,184	--
Commercial and industrial	--	--	--	10,388	10,388	--
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 193,646</u>	<u>\$ 193,646</u>	<u>\$ --</u>

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses (Cont.)

#### Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses and impaired loans by portfolio segment for the years ended December 31, 2021 and 2020 (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

#### Allowance for Loan Losses For the Year Ended December 31, 2021

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Total
<b>December 31, 2021</b>							
Beginning balance	\$ 253	\$ 2,571	\$ 949	\$ 20	\$ --	\$ 246	\$ 4,039
Charge-offs	--	--	--	--	--	--	--
Recoveries	--	--	--	--	--	--	--
Provisions (releases)	(1)	(1,210)	(474)	(5)	--	1,040	(650)
<b>Ending balance</b>	<b>\$ 252</b>	<b>\$ 1,361</b>	<b>\$ 475</b>	<b>\$ 15</b>	<b>\$ --</b>	<b>\$ 1,286</b>	<b>\$ 3,389</b>
Collectively evaluated for impairment	\$ 252	\$ 1,361	\$ 475	\$ 15	\$ --	\$ 1,286	\$ 3,389

#### Allowance for Loan Losses For the Year Ended December 31, 2020

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Agriculture	Commercial and Industrial	Total
<b>December 31, 2020</b>							
Beginning balance	\$ 383	\$ 2,128	\$ 769	\$ 16	\$ 39	\$ 363	\$ 3,698
Charge-offs	--	--	--	--	--	--	--
Recoveries	--	53	--	--	--	--	53
Provisions (releases)	(130)	390	180	4	(39)	(117)	288
<b>Ending balance</b>	<b>\$ 253</b>	<b>\$ 2,571</b>	<b>\$ 949</b>	<b>\$ 20</b>	<b>\$ --</b>	<b>\$ 246</b>	<b>\$ 4,039</b>
Collectively evaluated for impairment	\$ 253	\$ 2,571	\$ 949	\$ 20	\$ --	\$ 246	\$ 4,039

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses (Cont.)

#### Allowance for Loan Losses (Cont.)

There are no impaired loans as of December 31, 2021 and 2020.

There were no commitments to lend additional funds to borrowers whose loans had been modified for the years ended December 31, 2021 and 2020.

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators, including trends related to (i) risk grade by loan type, (ii) level, (iii) delinquency status, (iv) net charge-offs, (v) non-performing status, and (vi) general economic conditions.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 10. A description of the general characteristics of the risk grades is as follows:

**Grades 1 to 5** - These grades reflect various levels of acceptable credit risk where grade 1 represents the highest credit quality and lowest risk of default and grade 5 represents moderate credit risk based upon mitigating factors.

**Grade 6** - This grade represents existing loans with a higher than average credit risk but are currently within the Company's credit risk tolerance for a passing loan. A loan will be downgraded to a grade 6 if it warrants greater than routine attention by bank personnel due to conditions affecting the borrower, the borrower's industry, or the economic environment. This risk grade is utilized on a temporary basis for a pass grade.

**Grade 7** - This grade reflects loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date.

**Grade 8** - This grade reflects loans that are insufficiently protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if applicable. Under this risk grade, a loan has defined weaknesses that make payment default or principal exposure likely, but not yet certain. Generally, the Company ceases the accrual of interest on these loans, although circumstances may exist where the continuation of the interest accrual is supported.

**Grade 9** - This grade includes loans with a high probability of loss, but because of certain important and reasonably specific pending factors, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

**Grade 10** - This grade includes loans classified as loss which are considered uncollectible and of low value for which the continuation as a bankable asset is not warranted. While this classification results in the prompt charge-off of the loan, it is not intended to imply that the loan or some portion of it will never be collected, nor does it in any way imply that there has been a forgiveness of debt.

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses (Cont.)

The following is a summary of the credit risk profile by internally assigned grades as of December 31, 2021 and 2020 (in thousands):

#### Credit Quality Indicators As of December 31, 2021

	Commercial Construction	Commercial Real Estate	Multi- Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Total
<b>Grade</b>						
Grades 1 - 6	\$ 6,105	\$ 56,144	\$ 38,467	\$ 1,168	\$ 86,305	\$ 188,189
Grade 7	--	5,892	--	--	--	5,892
Grade 8	--	684	--	--	--	684
Grade 9	--	--	--	--	--	--
Grade 10	--	--	--	--	--	--
	<u>\$ 6,105</u>	<u>\$ 62,720</u>	<u>\$ 38,467</u>	<u>\$ 1,168</u>	<u>\$ 86,305</u>	<u>\$ 194,765</u>
Nonaccrual	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

#### Credit Quality Indicators As of December 31, 2020

	Commercial Construction	Commercial Real Estate	Multi- Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Total
<b>Grade</b>						
Grades 1 - 6	\$ 5,613	\$ 106,409	\$ 64,021	\$ 1,184	\$ 10,388	\$ 187,615
Grade 7	--	5,321	--	--	--	5,321
Grade 8	--	710	--	--	--	710
Grade 9	--	--	--	--	--	--
Grade 10	--	--	--	--	--	--
	<u>\$ 5,613</u>	<u>\$ 112,440</u>	<u>\$ 64,021</u>	<u>\$ 1,184</u>	<u>\$ 10,388</u>	<u>\$ 193,646</u>
Nonaccrual	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 5 - Loans and Allowance for Loan Losses (Cont.)

Grade 1 through 6 are considered passing loan grades. A risk grade may be changed at any time, based upon the assessment of the current financial information available from the borrower. Loans with passing risk grades 1 through 5 are reviewed at least annually for any risk grade changes. Loans with risk grades of 6 through 9 are reviewed at least quarterly in order to monitor the trends in the financial strength of the borrowers, reassess the credit risk and determine a more current estimate of losses. Once it is determined that a loan is a loss it receives a grade 10 and is charged off at that time.

Loans are placed on non-accrual status when the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions would typically require the placement of a loan on non-accrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well-secured and in the process of collection, or (ii) full payment of principal and interest is not expected. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on non-accrual loans are applied to principal. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

#### Modifications

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers and participates in various types of concessions when modifying a loan, although forgiveness of principal is rarely granted. Commercial real estate and construction loans modified in a TDR often involve dividing a note to reduce the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally two years. During that time, the borrower's entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower resumes to paying principal and interest per the original terms with an adjusted maturity date. All modifications in 2021 aligned with the CARES act provisions which permits exclusion from TDR status.

Loans modified in a TDR are typically on non-accrual status prior to the restructuring and may have been subjected to partial charge-offs in some cases. As a result, loans modified in a TDR for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent.

There were no TDRs affected in 2021 and 2020 and there were no amounts of loans that defaulted under their modified terms in 2021 and 2020.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
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### Note 6 - Equipment and Leasehold Improvements

Equipment and leasehold improvements stated at cost, less accumulated depreciation and amortization, at December 31 are as follows (in thousands):

	2021	2020
Equipment and furniture	\$ 1,570	\$ 2,002
Internally developed software	7,781	5,468
Leasehold improvements	--	112
Developed software and hardware in process	--	901
<b>Cost</b>	<b>9,351</b>	<b>8,483</b>
Less accumulated depreciation and amortization	(3,792)	(2,807)
<b>Net book value</b>	<b>\$ 5,559</b>	<b>\$ 5,676</b>

### Note 7 - Interest-Bearing Deposits

At December 31, 2021, interest-bearing deposits included money market deposits totaling \$362.9 million, and time certificates totaling \$43.7 million, of which \$38.5 million maturing in 2022 and \$5.2 million maturing in 2023. At December 31, 2020, interest-bearing deposits included money market deposits totaling \$645.5 million, and time certificates totaling \$54.5 million maturing in 2021 and 2022.

At December 31, 2021 and 2020, the Bank had time deposits of \$250 thousand or greater totaling \$40.7 million and \$51.7 million, respectively, and had no brokered deposits.

### Note 8 - Other Borrowings

Borrowings from the FHLB of San Francisco may include overnight advances as well as loans with terms of up to 30 years. As of December 31, 2021, the Bank had a credit facility with the FHLB of San Francisco for up to approximately \$44.4 million, which is secured by pledged securities with a fair value of \$792 thousand and pledged loans with a fair value of \$63 million. There was no amount outstanding under this facility as of December 31, 2021 and 2020.

The Bank has a borrowing facility in the amount of \$70.6 million with the FRB, secured by \$120.9 million of the Bank's loans. There were no amounts outstanding on this facility as of December 31, 2021 and 2020.

The Company has a line of credit in the amount of \$30 million secured by the stock of subsidiary. The total outstanding under this facility was \$27 million and \$30 million as of December 31, 2021 and 2020, respectively.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 9 - Trust Preferred Securities

On November 13, 2003, the Company's wholly owned special-purpose trust subsidiary, PCBB Trust I, issued \$7.2 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month LIBOR plus 2.85 percent (2.98 percent at December 31, 2021). Interest is payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company's Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature November 8, 2033, and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

On September 28, 2006, the Company's wholly owned special-purpose trust subsidiary, PCBB Trust II, issued \$12.4 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month LIBOR plus 1.70 percent (1.90 percent at December 31, 2021), payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company's Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature December 15, 2036, and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

Of the \$19.6 million received by the Company from the trust upon issuance of the Junior Subordinated Debentures, contributions of \$15.0 million were distributed to the Bank to increase its capital. The balance was retained by the Company for general corporate purposes. Issuance costs of \$140 thousand related to the Trust Preferred Securities have been deferred and are being amortized over the life of the securities. Interest expense on the Trust Preferred Securities totaled \$781 thousand and \$839 thousand for the years ended December 31, 2021 and 2020, respectively, including the impact of designated interest rate hedges in connection with these securities. Amortization expense was minimal for both periods.

### Note 10 - Salary Continuation Agreements

The Bank has established salary continuation agreements for certain executive officers that provide benefits substantially equivalent to those available under single premium life insurance policies purchased by the Bank on the lives of its executives. The estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the executives' expected retirement dates. During the year ended December 31, 2021, the expense of these agreements was \$176 thousand and the accrued liability was \$3.2 million. During the year ended December 31, 2020, the expense of these agreements was \$167 thousand and the accrued liability was \$3.1 million. The accrued liability is included in interest payable and other liabilities on the consolidated balance sheets.

The Company has purchased single premium life insurance policies to be used to satisfy the salary continuation liabilities. The cash surrender value of the single premium life insurance policies totaled \$8.4 million and \$8.3 million as of December 31, 2021 and 2020, respectively. Payments made on agreements to former executives totaled \$54 thousand for each of the years ended December 31, 2021 and 2020.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 11 - Commitments and Contingencies

#### Operating Leases

The Company leases its facilities under non-cancellable operating leases expiring in 2025. Minimum rental commitments under these leases for future years ending December 31 are as follows (in thousands):

2022	\$	698
2023		704
2024		726
2025		608
<b>Total minimum lease obligations</b>	<b>\$</b>	<b><u>2,736</u></b>

Rent expense totaled \$668 thousand and \$695 thousand in 2021 and 2020, respectively.

#### Employment Agreements

The Company and the Bank have employments and change in control agreements with executives, which provide for incentive compensation and severance provisions that include compensation and noncompetition agreements. The agreements provide that employment is at-will and, therefore, may be terminated by either party.

#### Management Incentive Compensation Plan

The Company offers a management incentive plan to reward executive management for productivity, performance, and implementing the business plan of the Company. Members of executive management are eligible to participate in the plan. The plan provides executive management with both current cash incentives as well as restricted stock units that vest over three years. For the years ended December 31, 2021 and 2020, the expense recognized by the Company was \$1.1 million and \$1.4 million, respectively. The amounts paid to executive management under the plan during the years 2021 and 2020 were \$1.4 million and \$3.3 million, respectively. The accrued liability associated with this plan was \$583 thousand and \$1.4 million for the years ended December 31, 2021 and 2020, respectively. The incentive compensation is also subject to a "clawback" provision. The plan liability is included in interest payable and other liabilities on the consolidated balance sheets.

### Note 12 - Risks and Uncertainties

The Company's direct exposure to credit risk is concentrated in any cash deposits in excess of applicable insurance limits. The Company reduces its exposure to this risk by maintaining cash deposits with only high-quality financial institutions.

Additionally, in the normal course of business, the Company enters into financial transactions involving the execution and settlement of transactions for the benefit of its clients. These activities may expose the Company to indirect credit risk, representing interest foregone, in the event a client or a third party is unable to fulfill its contractual obligation.

Because of the nature of its activities, the Company is subject to pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 13 - Stock Compensation Plan

In May 2019, the Company adopted the 2019 Omnibus Plan (the Plan). Under the Plan, stock option awards, stock appreciation rights, restricted stock awards, and restricted stock units may be granted to certain key employees and directors. The Plan authorizes the grant of equity awards as long as the number of shares of common stock granted under the Plan does not exceed 150,000 shares. Restricted stock units of 33,648 have been granted under the Plan and 116,352 are available to grant at December 31, 2021. The Plan became effective May 21, 2019 and terminates February 18, 2029.

The restricted stock units vest over a period of three years and expense is recognized using the straight-line method for each vesting arrangement in the accompanying consolidated financial statements. Fair market value of each award is determined at grant date. There were 116,352 non-vested restricted stock units as of December 31, 2021. Compensation expense of \$463 thousand was recognized in 2021. Remaining expense to be recognized totals \$781 thousand for restricted stock unit grants that have been awarded.

	Units	Weighted Average Grant Date Fair Value
<b>Restricted stock units granted under the plan</b>		
Outstanding at Jan 1, 2020	--	--
Granted	27,626	\$ 60.00
Vested	--	--
Forfeited	--	--
<b>Outstanding at Dec 31, 2020</b>	<u><b>27,626</b></u>	<u><b>\$ 60.00</b></u>
Outstanding at Jan 1, 2021	27,626	\$ 60.00
Granted	6,022	\$ 83.03
Vested	--	--
Forfeited	--	--
<b>Outstanding at Dec 31, 2021</b>	<u><b>33,648</b></u>	<u><b>\$ 64.12</b></u>

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 14 - Other Non-Interest Expense

Other non-interest expense at December 31 comprises the following (in thousands):

	2021	2020
Professional service fees	\$ 2,661	\$ 2,207
Data processing and software maintenance	1,227	1,314
Advertising and business development	746	802
Director fees and expenses	620	569
Meals, travel and entertainment	176	151
Other	663	1,378
<b>Total</b>	<b><u>\$ 6,093</u></b>	<b><u>\$ 6,421</u></b>

### Note 15 - Income Taxes

The provision for income taxes for the years ended December 31 consists of the following (in thousands):

	2021	2020
Current:		
Federal	\$ 1,628	\$ 6,777
State	699	2,296
<b>Total current provision</b>	<b><u>2,327</u></b>	<b><u>9,073</u></b>
Deferred:		
Federal	(295)	(430)
State	(232)	(45)
<b>Total deferred (benefit)</b>	<b><u>(527)</u></b>	<b><u>(475)</u></b>
<b>Total income tax provision</b>	<b><u>\$ 1,800</u></b>	<b><u>\$ 8,598</u></b>

The reconciliation between the statutory federal income tax rate of 21 percent and the Company's effective tax rate for the years ended December 31 (in thousands):

	2021		2020	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal income tax at statutory rates	\$ 1,504	21.0%	\$ 6,914	21.0%
State income tax	369	5.2%	1,778	5.4%
Other	(73)	-1.0%	(94)	-0.3%
<b>Total income tax expense</b>	<b><u>\$ 1,800</u></b>	<b>25.2%</b>	<b><u>\$ 8,598</u></b>	<b>26.1%</b>

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 15 - Income Taxes (Cont.)

Components of the Company's net deferred tax assets (liabilities) at December 31 are as follows (in thousands):

	2021	2020
<b>Deferred Tax Assets</b>		
Allowance for loan losses	\$ 909	\$ 1,076
Salary continuation plans	864	814
Unrealized loss on securities available for sale	--	--
Other	524	583
<b>Total deferred tax assets</b>	<b>2,297</b>	<b>2,473</b>
<b>Deferred Tax Liabilities</b>		
Depreciation	(131)	(138)
Deferred loan costs	--	(34)
Research and development costs	(433)	(1,091)
Unrealized gain on securities available for sale	(189)	(258)
Prepaid expenses	(29)	(22)
Other	(43)	(53)
<b>Total deferred tax liabilities</b>	<b>(825)</b>	<b>(1,596)</b>
<b>Net deferred tax assets</b>	<b>\$ 1,472</b>	<b>\$ 877</b>

Net deferred tax assets are included in other assets on the consolidated balance sheets. Management has assessed the likelihood that the deferred tax assets will be realized and believes it is more likely than not that all deferred tax assets will be realized in the normal course of business. The Company recognizes penalties and interest related to unrecognized tax benefits in the provision for income taxes. The Company recognized no significant penalties or interest during the years ended December 31, 2021 and 2020. No liability related to uncertain tax positions was recorded during the years ended December 31, 2021 and 2020. Federal tax returns for the years 2018 through 2021 remain subject to examination. State returns for the years 2017 through 2021 also remain subject to examination.

### Note 16 - Derivatives

#### Derivatives Provided as a Service to Customers

Derivatives in which the Company is an intermediary arise when the Company enters into derivatives with customer banks and offsetting derivatives with other counterparties to meet the needs of its customers. The notional principal of interest rate exchange agreements arising from the Company entering into derivatives with customers and offsetting derivatives with other counterparties was approximately \$13.9 billion at December 31, 2021 and \$13.4 billion at December 31, 2020.

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing an interest rate exchange agreement that has a net positive market value if the counterparty defaults; this amount is substantially less than the notional amount.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At December 31, 2021 and 2020, the Bank's maximum credit risk, as defined above, was

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 16 – Derivatives (Cont.)

#### Derivatives Provided as a Service to Customers (Cont.)

estimated at approximately \$417.2 million and \$588.8 million, respectively. The legal right to offset assets and liabilities by a counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty) is considered in determining the maximum credit risk. The Bank's primary source of collateral for customer derivative transactions is commercial real estate interest in the form of first trust deeds. The Bank also held cash, time deposits, and investment grade securities valued at approximately \$181.5 million and \$51.3 million as collateral from counterparties as of December 31, 2021 and 2020, respectively. No collateral held at the Bank from counterparties was repledged to other counterparties at December 31, 2021 and 2020. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell and distribute consolidated obligations.

The Company has policies and procedures in place that are designed to manage the derivatives provided as a service to customers to an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis. The commercial real estate properties securing the Company's derivatives provided as a service to customers are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry.

The fair values of derivative contracts are located separately on the consolidated balance sheets. Net gains from the change in fair value of derivatives and realized gains on derivative contract settlements are separately located on the consolidated statements of income.

Derivatives not designated as hedging instruments are as follows at December 31, 2021 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	\$ 12,318,844	\$ 417,220	\$ 1,550,092	\$ (31,365)
Written options	--	--	--	--
Purchased options	--	--	--	--
<b>Total derivative financial instruments not designated as hedging instruments</b>	<b>\$ 12,318,844</b>	<b>\$ 417,220</b>	<b>\$ 1,550,092</b>	<b>\$ (31,365)</b>

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 16 – Derivatives (Cont.)

#### Derivatives Provided as a Service to Customers (Cont.)

Derivatives not designated as hedging instruments are as follows at December 31, 2020 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	\$ 10,283,255	\$ 588,783	\$ 3,095,554	\$ (62,558)
Written options	--	--	13,000	--
Purchased options	13,000	--	--	--
<b>Total derivative financial instruments not designated as hedging instruments</b>	<b>\$ 10,296,255</b>	<b>\$ 588,783</b>	<b>\$ 3,108,554</b>	<b>\$ (62,558)</b>

#### Derivatives Summary

The gross positive and negative fair values of derivatives are as follows (in thousands):

	2021		2020	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
<b>Interest Rate Swap Agreements</b>				
Gross positive fair value	\$ 9,462,415	\$ 506,208	\$ 9,925,315	\$ 671,735
Gross negative fair value	4,406,521	(120,353)	3,427,493	(145,510)

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 16 – Derivatives (Cont.)

#### Derivatives Provided as a Service to Customers (Cont.)

##### Balance Sheet Offsetting

The Company is party to master netting arrangements with certain financial institution counterparties. The master netting arrangements provide for a single net settlement of derivative agreements, as well as collateral, in the event of a default on, or termination of, any one contract. Collateral, usually in the form of marketable securities or deposit accounts, is posted by the counterparty, with net liability positions in accordance with contract thresholds.

The following table presents the assets and liabilities:

##### Subject to an Enforceable Master Netting Arrangement as of December 31

Description	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets or Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Net Amount
<b>December 31, 2021</b>					
Derivatives assets at fair value	\$ 219,511	\$ (40,225)	\$ 179,286	\$ 237,934	\$ 417,220
Derivatives liabilities at fair value	(53,023)	40,225	(12,798)	(18,567)	(31,365)
<b>December 31, 2020</b>					
Derivatives assets at fair value	\$ 122,403	\$ (79,496)	\$ 42,907	\$ 545,876	\$ 588,783
Derivatives liabilities at fair value	(141,659)	79,496	(62,163)	(395)	(62,558)

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 17 - Financial Instruments and Fair Value

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of those instruments and is usually limited to amounts funded or drawn. The contract or notional amounts of these agreements, which are not included on the consolidated balance sheets, are an indicator of the Bank's credit exposure. Commitments to extend credit generally carry variable interest rates and are subject to the same credit standards used in the lending process for on-balance-sheet instruments. Additionally, the Bank periodically reassesses the customer's creditworthiness through ongoing credit reviews. The Bank generally requires collateral or other security to support commitments to extend credit. A summary of the Bank's commitments at December 31 is as follows (in thousands):

	2021	2020
Financial instruments whose contract amounts represent credit risk:		
Undisbursed loan commitments	\$ 7,543	\$ 19,490
Letters of credit	--	--
<b>Total commitments to extend credit</b>	<b><u>\$ 7,543</u></b>	<b><u>\$ 19,490</u></b>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial and residential properties.

## Notes to Consolidated Financial Statements

Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 17 - Financial Instruments and Fair Value (Cont.)

#### Assets and Liabilities Measured at Fair Value

The following are assets and liabilities measured at fair value on a recurring basis (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>December 31, 2021</b>				
Assets at fair value:				
Securities available for sale:				
U.S. government agency mortgage-backed securities	\$ --	\$ 99,415	\$ --	\$ 99,415
Interest rate swaps	--	417,200	--	417,200
Synthetic interest rate swaps	--	20	--	20
FX forward contracts	--	7	--	7
<b>Total</b>	<b>\$ --</b>	<b>\$ 516,642</b>	<b>\$ --</b>	<b>\$ 516,642</b>
Liabilities at fair value				
Interest rate swaps	\$ --	\$ 31,365	\$ --	\$ 31,365
Interest rate cap and floor agreements	--	--	--	--
<b>Total</b>	<b>\$ --</b>	<b>\$ 31,365</b>	<b>\$ --</b>	<b>\$ 31,365</b>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>December 31, 2020</b>				
Assets at fair value:				
Securities available for sale:				
U.S. government agency mortgage-backed securities	\$ --	\$ 79,448	\$ --	\$ 79,448
Interest rate swaps	--	588,649	--	588,649
Synthetic interest rate swaps	--	134	--	134
FX forward contracts	--	2	--	2
<b>Total</b>	<b>\$ --</b>	<b>\$ 668,233</b>	<b>\$ --</b>	<b>\$ 668,233</b>
Liabilities at fair value				
Interest rate swaps	\$ --	\$ 62,558	\$ --	\$ 62,558
Interest rate cap and floor agreements	--	--	--	--
<b>Total</b>	<b>\$ --</b>	<b>\$ 62,558</b>	<b>\$ --</b>	<b>\$ 62,558</b>

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 17 - Financial Instruments and Fair Value (Cont.)

#### Assets and Liabilities Measured at Fair Value (Cont.)

Securities available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes internal valuation models with observable market data inputs to estimate fair values of interest rate swaps. The Company also obtains dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations.

For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of collateral securing the position. The Company reviews its counterparty exposure on a regular basis and, when necessary, appropriate business actions are taken to adjust the exposure. The Company also utilizes this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Under ASC 310, Receivables, certain impaired loans are reported at fair value of the underlying collateral less costs to sell if repayment is based solely from collateral.

### Note 18 - Regulatory Matters

The Bank and the Company are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that, if undertaken, could have a direct material effect in the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of common equity Tier 1 (as defined in the regulations), total capital, and Tier 1 capital (as defined) to risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021, the Bank and the Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2021, the most recent notification from the FRB categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 18 - Regulatory Matters (Cont.)

The Bank's and the Company's actual capital amounts and ratios are also presented as follows (in thousands, except for ratio inputs).

The Basel III Capital Rules, a comprehensive capital framework for U.S. banking organizations, are fully phased-in for the Company on January 1, 2019. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

The Company's Common Equity Tier 1 capital includes common stock and related paid-in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, the Company elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for the Company is reduced by, goodwill and other intangible assets, net of associated deferred tax liabilities, and subject to transition provisions.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for the Company includes a permissible portion of the allowance for loan losses. Tier 2 capital for the Company also includes trust preferred securities that were excluded from Tier 1 capital.

The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on the regulatory requirements and include total assets, with certain exclusions, allocated by risk-weighted category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

The Basel III Capital Rules are fully phased in and require the Bank to hold an additional capital conservation buffer (CCB) or face restrictions on certain capital distributions, including dividends, share purchases, and discretionary executive officer bonuses and payments on Tier 1 instruments. The CCB elements require the Bank to maintain (i) a minimum ratio of Common Equity Tier I capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier I capital ratio, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 18 - Regulatory Matters (Cont.)

Bank Ratio	Actual		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2021</b>				
Tier 1 common equity (to risk-weighted assets) \$	134,879	27.29%	\$ 32,129	6.50%
Tier 1 capital (to average assets)	134,879	9.48%	71,147	5.00%
Tier 1 capital (to risk-weighted assets)	134,879	27.29%	39,543	8.00%
Total capital (to risk-weighted assets)	138,275	27.97%	49,429	10.00%
<b>December 31, 2020</b>				
Tier 1 common equity (to risk-weighted assets) \$	132,477	17.26%	\$ 49,885	6.50%
Tier 1 capital (to average assets)	132,477	9.70%	68,308	5.00%
Tier 1 capital (to risk-weighted assets)	132,477	17.26%	61,396	8.00%
Total capital (to risk-weighted assets)	136,535	17.79%	76,746	10.00%

## Notes to Consolidated Financial Statements

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Pacific Coast Bankers' Bancshares  
December 31, 2021 and 2020

### Note 19 - Other Comprehensive Income (Loss)

The components of comprehensive income (loss) as it relates to securities available for sale as follows (in thousands):

	<b>Before-Tax Amount</b>	<b>Income Tax</b>	<b>Net-of-Tax Amount</b>
<b>Year Ended December 31, 2021</b>			
Beginning of year balance	\$ 1,752	\$ (508)	\$ 1,244
Net unrealized holding gain arising during the year	(711)	206	(505)
<b>Net unrealized gain (loss)</b>	<b>1,041</b>	<b>(302)</b>	<b>739</b>
<b>Balance</b>	<b>\$ 1,041</b>	<b>\$ (302)</b>	<b>\$ 739</b>
<b>Year Ended December 31, 2020</b>			
Beginning of year balance	\$ (52)	\$ 15	\$ (37)
Net unrealized holding loss arising during the year	1,804	(523)	1,281
<b>Net unrealized gain (loss)</b>	<b>1,752</b>	<b>(508)</b>	<b>1,244</b>
<b>Balance</b>	<b>\$ 1,752</b>	<b>\$ (508)</b>	<b>\$ 1,244</b>